WORLD POLITICS

A Quarterly Journal of International Relations

Volume 51, Number 2 January 1999

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WORLD POLITICS (ISSN 0043-8871). Published quarterly by The Johns Hopkins University Press. Vol. 51, No. 2, January 1999. Periodicals postage paid at Baltimore, MD, and additional mailing offices. POSTMASTER: Send address changes to WORLD POLITICS, The Johns Hopkins University Press, Journals Publishing Division, 2715 N. Charles Street, Baltimore, MD 21218-4319. Printed in the United States of America by Capital City Press.

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WORLD POLITICS

Vol. 51 • January 1999 • No. 2

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THE CONTRIBUTORS

RICHARD SNYDER is Assistant Professor of Political Science at the University of Illinois, Urbana-Champaign. He is the editor of *Institutional Adaptation and Innovation in Rural Mexico* (forthcoming) and is currently completing a book manuscript on the politics of reregulation. He has also published on the topic of regime change.

CAROL SKALNIK LEFF is Assistant Professor of Political Science at the University of Illinois, Urbana-Champaign. She is the author of *National Conflict in Czechoslovakia* (1988) and *The Czech and Slovak Republics: Nation vs. State* (1997). She is currently finishing a book on the international dimensions of regime transition in Eastern Europe.

HECTOR E. SCHAMIS is Assistant Professor of Government at Cornell University. He has written on Latin American political economy and is currently completing a book on the politics of privatization in comparative perspective.

CHARLES R. BEITZ is Dean for Academic Affairs and Professor of Government at Bowdoin College. He is the author of *Political Theory and International Relations* (1979) and *Political Equality* (1989) and numerous articles in international political theory.

MICHAEL L. ROSS is Assistant Professor of Political Science at the University of Michigan, Ann Arbor. His forthcoming book is on the impact of commodity booms on state institutions; it includes case studies of the Philippines, Indonesia, and Malaysia.

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ABSTRACTS

After Neoliberalism

THE POLITICS OF REREGULATION IN MEXICO

By RICHARD SNYDER

Neoliberal economic reforms, rather than unleashing market forces, can result in new institutions for market governance. By vacating institutionalized policy domains, neoliberal reforms can trigger two-step reregulation processes, as first, political entrepreneurs launch projects to build support coalitions by reregulating markets, and second, societal groups respond to these projects by mobilizing to influence the terms of reregulation. Depending on the strengths and strategies of politicians and societal groups, reregulation processes result in varied institutions for market governance. The article develops this argument by analyzing how neoliberal reforms in Mexico led to the construction of distinct institutions for market governance across four states (Chiapas, Guerrero, Oaxaca, and Puebla). The findings from Mexico highlight the importance of moving beyond the questions of why developing countries choose neoliberal policies and how they implement them. Students of the political economy of development should shift their attention instead to understanding the kinds of new institutions that replace those destroyed or displaced by neoliberal reforms.

Democratization and Disintegration in Multinational States

THE BREAKUP OF THE COMMUNIST FEDERATIONS

By CAROL SKALNIK LEFF

One of the challenges presented to democratization theory by the collapse of communist regimes is the need to take into account the impact of ethnonational diversity on the processes of transition. This article explores that question in a comparative analysis of the dissolutions of the multinational federations of Yugoslavia, Czechoslovakia, and the Soviet Union. It revisits what has been a core—although usually unarticulated—premise of the democratization literature: that the decisions and negotiations that critically shape regime transition occur in a single, central political arena, a political space common to all actors. In contrast to that perspective, the strategic political context for transition in multinational states differs both from that in homogeneous states and from that in unitary multinational states, in offering multiple arenas of political contestation. The implication for democratization in multinational states is that, depending on the institutional structure of the state, regime change may occur at different rates in different substate political arenas—the republics—in such a way as to trigger the erosion of central control over the transition. Where democratization theory has emphasized strategic choice conditioned by the balance of power between regime and opposition actors, an accounting of the politics of transition in ethnofederal states must emphasize (1) strategic choices by actors in multiple political arenas and (2) the shifting balance of power between center and republics.

Distributional Coalitions and the Politics of Economic Reform in Latin America

By HECTOR E. SCHAMIS

For much of the discipline of economics, a closed economy is seen as the result of efforts of distributional coalitions and rent seekers to maintain sector-specific protections. Accordingly, economic liberalization is explained by the policy consistency of uncompromising reform elites. Students of the politics of economic adjustment in the developing world, in turn, have argued that reform programs concentrate costs in the present and disperse benefits in the future. Hence, losers are prepared to engage in collective action, whereas prospective winners, facing uncertainty about payoffs, remain disorganized. They thus posit the cohesiveness and insularity of policymakers as the main variable for explaining successful reform. Both economists and political scientists, therefore, adopt a collective action approach that overlooks how groups organize *in support* of liberalization.

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In the recent Latin American experience, however, these reforms have preserved market reserves for firms that provided vital political support to, and often colluded with, policymaking elites. This setting has thus reproduced incentives for rent-seeking behavior, even in the presence of comprehensive liberalization. This evidence supports two interrelated theoretical claims. First, distributional coalitions may proliferate when the state withdraws from the economy, not only when it intervenes. Second, interest-based variables retain explanatory power in political economy—which state autonomy arguments disregard—irrespective of whether the economy is closed or open—which neoclassical perspectives overlook. To highlight the centrality of interest groups favoring marketization, therefore, the article suggests modifications to the dominant theories of collective action and the literature on the politics of economic adjustment.

International Liberalism and Distributive Justice

A SURVEY OF RECENT THOUGHT

By CHARLES R. BEITZ

In recent years there has been a renewal of interest in the liberal tradition in international thought, with particular attention being paid to liberal conceptions of international distributive justice. This article describes and criticizes three different approaches to international distributive justice represented in the recent literature: (1) social liberalism, which takes the nation-state as basic and argues for international transfers to the extent necessary to sustain just domestic institutions; (2) laisser-faire liberalism, which, in its redistributivist variant, aims to rectify injustices arising from the unequal appropriation of natural resources; and (3) cosmopolitan liberalism, which takes each individual's interests as equally deserving of concern in the design of global (and sectional) institutions.

The Political Economy of the Resource Curse

By MICHAEL L. ROSS

How does a state's natural resource wealth influence its economic development? For the past fifty years, versions of this question have been explored by both economists and political scientists. New research suggests that resource wealth tends to harm economic growth, yet there is little agreement on why this occurs. This article reviews a wide range of recent attempts in both economics and political science to explain the "resource curse." It suggests that much has been learned about the economic problems of resource exporters but less is known about their political problems. The disparity between strong findings on economic matters and weak findings on political ones partly reflects the failure of political scientists to carefully test their own theories.

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AFTER NEOLIBERALISM
The Politics of Reregulation in Mexico

By RICHARD SNYDER*

IN 1989 the Mexican government launched a massive deregulation of agriculture.[1] For the mostly foreign-trained technocrats who designed these neoliberal economic reforms, the coffee industry posed perhaps the easiest target for deregulation. Although an entrenched state-owned enterprise—the Mexican Coffee Institute (INMECAFE)—dominated the industry, a powerful grassroots movement of small coffee producers had already mobilized against it.[2] Thus, neoliberal reformers had strong societal allies, making government retrenchment in the coffee sector an easy task.

Yet this easy retrenchment had surprising consequences. Rather than leading to unregulated markets, as the neoliberal reformers had anticipated, the dismantling of INMECAFE resulted in the formation of new institutions for market governance. Actors who had not previously intervened in coffee sought to control policy areas vacated by the old state-owned enterprise. Most notably, the governments of Mexico's coffee-producing states established new regulatory frameworks and essentially "reregulated" what federal law had deregulated.[3] As a result, by

* I appreciate helpful comments and suggestions on earlier versions from Robert Bates, David Collier, Ruth Berins Collier, Jorge Domínguez, Peter Evans, Jonathan Fox, Ernst Haas, Frances Hagopian, Peter Houtzager, Pauline Jones-Luong, Robert Kaufman, Thomas Lewis, Juan Linz, Richard Locke, James Mahoney, Joel Migdal, Gerardo Munck, Elizabeth Perry, Paul Pierson, Daniel Posner, Paul Quirk, Kenneth Shadlen, Theda Skocpol, Judith Tendler, Steven Vogel, and two anonymous reviewers. For their support of my field research in Mexico, I gratefully acknowledge the National Science Foundation, the Institute for International Education, the Institute for the Study of World Politics, and the Ejido Reform Research Project of the Center for U.S.-Mexican Studies at the University of California, San Diego. I thank the Harvard Academy for International and Area Studies for a postdoctoral fellowship that supported the writing of this article.

[1] Jonathan Fox, "Political Change in Mexico's New Peasant Economy," in Maria Lorena Cook et al., eds., *The Politics of Economic Restructuring: State-Society Relations and Regime Change in Mexico* (La Jolla, Calif.: Center for U.S.-Mexican Studies, 1994); and Wayne A. Cornelius and David Myhre, eds., *The Transformation of Rural Mexico: Reforming the Ejido Sector* (La Jolla, Calif.: Center for U.S.-Mexican Studies, 1998).

[2] Gabriela Ejea and Luis Hernández, eds., *Cafetaleros: La construcción de la autonomía* (Mexico City: Coordinadora Nacional de Organizaciones Cafetaleras, 1991); and Horacio Santoyo Cortés et al., *Sistema agroindustrial café en México: diagnóstico, problemática y alternativas* (Chapingo, Mexico: Universidad Autónoma Chapingo, 1994).

[3] Mexico is a federal system with thirty-one states.

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1994 Mexico's coffee producers found themselves confronting a new and complex regulatory environment and not the free markets that had been anticipated.

The case of Mexico's coffee sector challenges expectations rooted in neoliberal economic theory. Instead of paving the way for triumph by free-market forces, neoliberal policies triggered the construction of new institutions for market governance. This surprising outcome exposes an important limitation of existing work in the political economy of development. Although many scholars have explored why countries choose neoliberal policies or how they implement them, few have addressed *postimplementation* issues concerning the effects of these policies—leaving us, consequently, without a framework for explaining the reconstruction of institutions for market governance after neoliberal reforms.

This article provides such a framework. It argues that by vacating institutionalized policy domains, neoliberal policy shocks in fact give political incumbents opportunities to expand their authority and their support bases by reregulating sectors of the economy. Organized societal groups have a stake in how sectors are reregulated and can mobilize to support or challenge politicians' reregulation projects. Hence, rather than unleashing free-market forces, neoliberal reforms may trigger two-step reregulation processes: first, political entrepreneurs launch projects to build support coalitions by reregulating markets; second, societal actors respond to these projects by mobilizing to influence the terms of reregulation. The varying strengths and strategies of politicians and societal groups, in turn, determine the various types of new institutions for market governance that will result from these reregulation processes.

Recognizing that neoliberal reforms create opportunities and incentives for institution building raises a further issue: what kinds of new institutions replace those destroyed or displaced by neoliberal policies? The case of Mexico offers an excellent opportunity to address this question. Despite striking historical, cultural, and socioeconomic similarities among Mexico's coffee-producing states, neoliberal policies resulted in a diverse array of institutional amalgams at the subnational level. In some states the new institutions reproduced long-standing patterns of top-down, exclusionary policy-making, an outcome that protected the interests of rural oligarchs. In other states, by contrast, the institutions that replaced INMECAFE opened new channels for small farmers to participate in the policy process. These participatory institutions fostered developmental partnerships between government agen-

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cies and grassroots producer organizations that helped small farmers compete in the international marketplace. The framework developed here for analyzing the politics of reregulation helps explain these divergent institutional outcomes.

The following section reviews existing perspectives on the politics of neoliberal reform and shows why they offer only limited insight about the dynamics of reregulation in developing countries. The next section introduces a new framework for analyzing the politics of reregulation. The framework is then applied to explain the construction of varied market governance institutions across four Mexican states. A subsequent section sets these findings in comparative perspective by exploring how the politics of reregulation might unfold in other developing countries. The conclusion synthesizes the argument and proposes directions for future research.

From Reform to Reregulation

The study of neoliberal reform has dominated work on the political economy of development during the last decade. Because most studies analyze market-oriented policies as a dependent variable, however, few explore the political effects of these policies. Many scholars seek to explain why countries choose neoliberal policies.[4] Within this focus on policy choice, some try to account for cross-national variations in the timing of reforms.[5] Others analyze differences in the composition of policy packages, attempting to explain, for example, why countries pursue orthodox or heterodox policies.[6] Scholars have also focused on issues of policy implementation, identifying political and social conditions that help or hinder implementation of neoliberal reforms.[7] Such studies mainly try to explain what makes neoliberal reforms possible, rather than explain their political consequences.

Previous work offers important insights about the factors that induce politicians to support or oppose neoliberal policies and about how po-

[4] See, for example, Joan M. Nelson, ed., *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World* (Princeton: Princeton University Press, 1990); and Robert H. Bates and Anne O. Krueger, eds., *Political and Economic Interactions in Economic Policy Reform: Evidence from Eight Countries* (Cambridge, Mass.: Basil Blackwell, 1993).

[5] See Joan M. Nelson, "Conclusions," in Nelson (fn. 4).

[6] Miles Kahler "Orthodoxy and Its Alternatives: Explaining Approaches to Stabilization and Adjustment," in Nelson (fn. 4).

[7] Thomas M. Callaghy, "Lost between State and Market: The Politics of Economic Adjustment in Ghana, Zambia, and Nigeria," in Nelson (fn. 4); Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (New York: Cambridge University Press, 1991); and Stephan Haggard and Robert R. Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992).

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litical institutions affect their implementation. These insights help explain why countries have had varied success achieving macroeconomic stabilization and structural adjustment. However, existing analyses shed little light on important *postimplementation* issues, such as the kinds of new institutions for market governance that replace those destroyed by neoliberal reforms. Because these institutions are likely to have decisive effects on how countries perform in the global economy, it is imperative that we understand their origins and dynamics.

The few analyses of developing countries that address postimplementation issues have been curiously apolitical. Scholars have increasingly noted that states acquire new capabilities in the course of implementing neoliberal reforms. However, they have focused mainly on capabilities linked either to technical requirements of neoliberal policies, such as preparing state enterprises for sale and improving control of public expenditures, or to global market pressures, such as providing sophisticated information about export markets to domestic producers to help boost their competitiveness abroad.[8] These analyses underemphasize the possibility that neoliberal reforms can trigger *politically motivated* institution building, driven not by technical or market exigencies but by ambitious incumbents looking to control policy areas vacated by state downsizing.

Perhaps because most advanced industrial countries embraced neoliberal reforms earlier than their counterparts in the developing world,[9] students of those countries have devoted considerable attention to postimplementation issues. Most notably, they have shown that market-oriented reforms in countries such as England and the United States actually increased government regulation of high-technology sectors, especially telecommunications and financial services.[10] Although studies of regulatory reform in advanced industrial countries offer important insights for conceptualizing postimplementation issues, they deemphasize the distributive effects of regulatory policy and instead portray reregulation as a relatively apolitical process led by tech-

[8] Kahler (fn. 6); Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change," in Haggard and Kaufman (fn. 7); John Waterbury, "The Heart of the Matter? Public Enterprise and the Adjustment Process," in Haggard and Kaufman (fn. 7); and Stephan Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995), 310–14.

[9] Chile is a notable exception. See Alejandro Foxley, *Latin American Experiments in Neoconservative Economics* (Berkeley: University of California Press, 1983).

[10] On reregulation in advanced industrial countries, see Michael Moran, *The Politics of the Financial Services Revolution: The U.S.A., U.K., and Japan* (New York: St. Martin's, 1991); and Steven K. Vogel, *Freer Markets, More Rules: Regulatory Reform in Advanced Industrial Countries* (Ithaca, N.Y.: Cornell University Press, 1996).

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nocrats who strive to promote economic performance, codify rules, or expand their bureaucratic prerogatives.[11] Consequently, these studies provide weak leverage for understanding how reregulation works in developing countries.

In developed and developing countries alike, the distributive effects of regulatory policy generate powerful incentives for political action.[12] In most developing countries, however, autonomous bureaucratic agencies insulated from "capture" by political actors are nonexistent or scarce.[13] Hence, the impulse to reregulate often stems from politicians, not from technocrats. To understand the dynamics of reregulation in such contexts requires a framework that highlights politicians' efforts to gain and keep power.

The Politics of Reregulation: A Framework

This section develops a framework for analyzing the politics of reregulation. The framework combines a focus on politicians' choices of regulatory policies with a focus on subsequent bargaining between politicians and societal groups over the terms of reregulation. Taken together, these two perspectives help us account for varied reregulation processes and the divergent institutions for market governance that result from them. Figure 1 summarizes the core components of the framework.

Reregulation Projects: A Politician-Centered Perspective

The distributive consequences of market regulation give politicians strong incentives to harness regulatory policy to political purposes. Regulation makes it possible to distribute "rationed favors, privileged access, and individual exceptions to general rules," thereby helping to "generate the resources by which to govern."[14] In contexts where bureaucratic agencies insulated from political control are scarce, we should expect regulatory policy to serve frequently as a tool that incumbent politicians deploy to build support and compete for power.

[11] According to Vogel (fn. 10), the "core agenda of regulatory reform" consists of efforts by bureaucrats to generate revenue and design new mechanisms for policy implementation (p. 19).

[12] Roger G. Noll, "Economic Perspectives on the Politics of Regulation," in Richard Schmalensee and Robert D. Willig, eds., *Handbook of Industrial Organization*, vol. 2 (New York: North-Holland, 1989); Robert H. Bates, "The Nature and Origins of Agricultural Policies in Africa," in Bates, *Essays on the Political Economy of Rural Africa* (New York: Cambridge University Press, 1983).

[13] Joel S. Migdal, *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World* (Princeton: Princeton University Press, 1988).

[14] Bates (fn. 12), 131.

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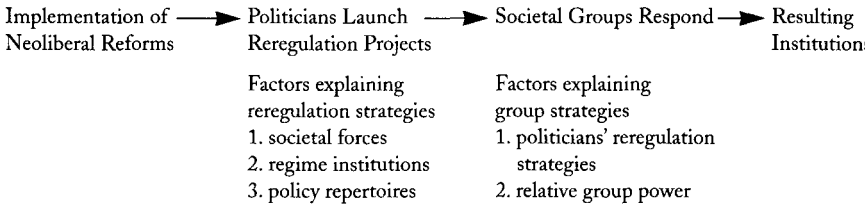

FIGURE 1
THE POLITICS OF REREGULATION FRAMEWORK

Neoliberal reforms give incumbents further reasons to regulate. First, such reforms often impose high costs on organized interest groups (for example, industrial labor, government employees), thus creating difficult coalitional challenges for politicians.[15] Because regulatory policy generates divisible benefits and targetable rewards, reregulation can be a potent instrument for maintaining or restructuring support coalitions strained by neoliberal reforms. Second, neoliberal shocks evacuate policy domains, and, from the perspective of ambitious politicians, these vacant domains may represent opportunities for increasing their authority. Reregulation can thus serve not only as a means to *preserve* power in situations of coalitional crisis caused by neoliberal reforms but also as a way to *expand* power.

Combined with the distributive consequences of regulatory policy, the characteristic political challenges and opportunities posed by neoliberal reforms give incumbents compelling incentives to reregulate. There is therefore strong basis for expecting reregulation to serve as a coalition-building tool wielded by politicians in the paradigmatic "soft states" of developing countries that lack robust, autonomous bureaucracies.[16]

The recognition that the impetus for reregulation stems from ambitious politicians, rather than from insulated technocrats, puts incumbents' strategic calculations at the center of the analysis. Yet politicians are not completely free in their choice of reregulation strategies: their policy choices are constrained by societal forces and political institutions. Furthermore, politicians often have ideas and beliefs that pre-

[15] Ruth Berins Collier, *The Contradictory Alliance: State-Labor Relations and Regime Change in Mexico* (Berkeley, Calif.: Institute for International and Area Studies, 1992); Katrina Burgess, "Alliances under Stress: Economic Reform and Party-Labor Relations in Mexico, Venezuela, and Spain" (Ph.D. diss., Princeton University, 1997); and Steven Levitsky and Lucan A. Way, "Between a Shock and a Hard Place: The Dynamics of Labor-Backed Adjustments in Poland and Argentina," *Comparative Politics* 30, no. 2 (1998).

[16] The term "soft state" is from Gunnar Myrdal, *Asian Drama: An Inquiry into the Poverty of Nations* (New York: Twentieth Century Fund, 1968), 66.

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scribe a course of policy choice and implementation. An explanation of reregulation strategies requires a framework that links societal and institutional constraints as well as politicians' ideas and values to the shaping of policy choice.[17]

SOCIETAL FORCES

The configuration of societal interests in a policy area constrains politicians' reregulation strategies by delimiting the range of feasible policy options. Mapping the policy preferences of societal actors thus serves as an important first step for explaining reregulation strategies.

However, the distribution of societal preferences cannot by itself explain these strategies. As students of collective action have long observed, group preferences do not necessarily translate into group demands. Furthermore, even if societal groups do organize to defend their interests, it is politicians, not interest groups, that are authorized to make regulatory policy. And, as we shall see, the responsiveness of politicians to interest-group demands depends on political institutions.

In sum, focusing on societal forces helps explain the menu of policy options. However, such a focus, while important, serves more to narrow the range of the possible than to explain the actual. To account for politicians' reregulation strategies, we need to consider additional factors.

REGIME INSTITUTIONS

Regimes are the formal and informal rules of a political system that determine how authoritative decisions are made and who may participate in the decision-making process.[18] Regime institutions have an important impact on reregulation because they define *who holds authority to make regulatory policy*. In federal regimes, for example, state and local governments may have authority over aspects of regulatory policy in their jurisdictions, which means that reregulation processes can unfold differently across subnational units and may involve intergovernmental competition to control policy areas abandoned by the federal government. In unitary regimes, by contrast, potentially autonomous policy jurisdictions usually do not exist at the subnational level, and reregulation is thus likely to be a territorially more uniform process than in federal systems. Nevertheless, a unitary system, too, can experience varied

[17] My efforts to develop a multilevel analysis of policy choice are influenced by Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Crises* (Ithaca, N.Y.: Cornell University Press, 1986); and Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (Ithaca, N.Y.: Cornell University Press, 1990).

[18] David Collier, ed., *The New Authoritarianism in Latin America* (Princeton: Princeton University Press, 1979), 402–3.

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reregulation dynamics, with variation occurring across economic sectors, rather than administrative units, and involving interagency, rather than intergovernmental, bargaining.

Regime institutions also shape reregulation strategies by defining *the structure of the policy-making process*.[19] This structure helps determine the political tasks incumbents need to accomplish in order to achieve their policy objectives. In regimes with multiple veto points (for example, systems in which executive power is checked by a legislature and judiciary), politicians may face complex challenges in securing consent from actors empowered to overturn their policy initiatives. Regulatory policy in such contexts is likely to be a collective output that reflects the preferences of multiple actors from different government organizations and agencies. By contrast, in regimes with few veto points (for example, systems in which policy can be made or changed by executive fiat), regulatory policy may often reflect the preferences and political styles of a handful of leaders and their advisers.[20]

Finally, regime institutions influence regulatory policy by determining *the responsiveness of politicians to societal interests*. Regime institutions shape incumbents' career incentives by defining those to whom they are accountable. In competitive multiparty democracies, for example, elected officials often face strong incentives to represent citizens in their districts because their career fortunes hinge on winning reelection.[21] In such contexts, incumbents are downwardly accountable and thus highly responsive to societal interests. In other types of regimes, by contrast, incumbents may be upwardly accountable to political elites and, hence, relatively unresponsive to societal groups. For example, in nondemocratic systems and in democracies with highly centralized parties or constitutional prohibitions against immediate reelection, performing constituency service can mean pleasing political masters, not societal interests.

Because they shape the responsiveness of politicians to societal pressures, regime institutions help explain how much their reregulation projects reflect the preferences of societal groups. If regime institutions give politicians compelling incentives to respond to societal demands, interest groups may exert decisive influence over reregulation strategies. By contrast, if regime institutions generate weak incentives to serve so-

[19] George Tsebelis, "Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism," *British Journal of Political Science* 25, no. 3 (1995).

[20] Such centralized regimes are exemplified by delegative and majoritarian democracies. See Guillermo O'Donnell, "Delegative Democracy," *Journal of Democracy* 5 (January 1994); and Arend Lijphart, *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-one Countries* (New Haven: Yale University Press, 1984).

[21] David Mayhew, *Congress: The Electoral Connection* (New Haven: Yale University Press, 1974).

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cietal interests, incumbents can have significant degrees of freedom choosing reregulation strategies.

POLICY REPERTOIRES

Although I assume politicians are motivated mainly by the goals of gaining and retaining office, regulatory policies are not necessarily optimal career-boosting strategies. Politicians often have distinct *policy repertoires* that condition their policy decisions and may lead them to support regulatory policies that do not enhance their career fortunes. Policy repertoires are coherent frameworks of beliefs, values, and ideas that prescribe a course of policy choice and implementation. These repertoires include conceptions about the proper role for government and the appropriate means of government intervention. They shape incumbents' perceptions of both the types of policy tools at their disposal and the methods available for manipulating these tools to create political dividends.[22]

Policy repertoires consist of more than just expert knowledge transmitted by policy analysts and professional economists. In addition to embodying such *pure* policy knowledge, politicians' repertoires are anchored in practical, *applied* knowledge, based on their accumulated experience in government and potentially distorted interpretations of expert prescriptions. Policy repertoires may develop through a path-dependent cognitive process in which understandings of policy options are shaped in profound and enduring ways by a politician's formative career experiences. Consequently, rather than mirroring current expert consensus, policy repertoires may reflect outdated, past prescriptions.

Data about incumbents' career paths and memberships in political cohorts or generations should help explain the content of their policy repertoires. For example, incumbents with extensive experience administering statist policies may have distorted understandings of how neoliberal reforms should be implemented. These understandings can lead them to interpret core neoliberal imperatives, such as achieving macroeconomic stabilization and increasing exports in sectors with comparative advantages, not as mandates for state shrinking, but rather as tasks that require *expanding* the state's role.

By recognizing how ideas, values, and beliefs can shape policy choices, a politician-centered perspective need not reduce incumbents

[22] On ideas and policy-making, see Peter A. Hall, "The Role of Interests, Institutions, and Ideas in the Comparative Political Economy of the Industrialized Nations," in Mark Irving Lichbach and Alan S. Zuckerman, eds., *Comparative Politics: Rationality, Culture, and Structure* (New York: Cambridge University Press, 1997).

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to faceless calculators of costs and benefits. Although it is a helpful and powerful simplification to assume that incumbents seek mainly to maximize their career fortunes, these efforts are framed by historically constructed, potentially idiosyncratic understandings about the range and consequences of policy options. A focus on policy repertoires thus illuminates *how* incumbents pursue political survival and helps explain why, for example, politicians seeking support from similar constituencies may have quite different policy agendas.

The influence of repertoires on policy choice should increase with the degree of autonomy incumbents have from societal forces. In several of the Mexican states analyzed below, governors had significant autonomy from societal pressures, and, as we shall see, their beliefs and ideological orientations played a decisive role in their choice of reregulation strategies.

Institutional Outcomes: An Interactive Perspective

Scholars have correctly emphasized the disorganizing effects of neoliberal policies and economic crisis on societal groups, especially organized labor.[23] Coupled with the powerful incentives neoliberal reforms give incumbents to deploy regulatory policy as a political weapon, these effects provide a strong basis for inferring that reregulation projects are launched by politicians, not by interest groups.[24] While a focus on politicians should thus offer the best vantage point for explaining reregulation initiatives, it is nonetheless necessary to bring societal groups into the analysis to account for the new institutions that result from these initiatives.

Although societal groups may not make the first move in reregulation processes, they can have a decisive impact on the institutional outcomes of such processes. Societal groups have stakes in how markets are reregulated, and politicians' reregulation projects can supply incentives and focal points that help them surmount barriers to collective action and mobilize to defend their interests. Hence, depending on the strengths and strategies of societal groups, the new institutions for market governance that result from politicians' reregulation strategies can

[23] See, for example, Barbara Geddes, "Challenging the Conventional Wisdom," in Larry Diamond and Marc F. Plattner, eds., *Economic Reform and Democracy* (Baltimore: Johns Hopkins University Press, 1995); and Sergio Zermeño, "Crisis, Neoliberalism, and Disorder," in Joe Foweraker and Ann L. Craig, eds., *Popular Movements and Political Change in Mexico* (Boulder, Colo.: Lynne Rienner, 1990).

[24] Of course, politicians often try to anticipate how societal actors will respond to their policy choices, especially if regime institutions give them incentives to attend to societal interests. Hence, even in the absence of organized societal pressures, political incumbents may try to incorporate societal preferences into their policy decisions.

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deviate significantly from what these politicians had intended. As we shall see, reregulation projects in Mexico often had the unintended consequence of galvanizing societal opposition that forced politicians to modify their projects.

To explain the institutional outcomes of reregulation, we should analyze strategic interactions between societal groups and political incumbents as they negotiate the terms of reregulation. This interactive perspective connects reregulation projects launched from above by incumbents to responses to these projects from below by societal groups. Making this connection is a crucial step toward explaining the institutions for market governance that replace those destroyed by neoliberal reforms.

Societal groups may choose any of several strategies in responding to politicians' reregulatory initiatives. They can *support* these initiatives. Alternatively, they can *oppose* and seek to defeat them, perhaps by launching a counterproject. Or they can engage and try to *modify* incumbents' initiatives so that the resulting regulatory scheme corresponds more closely to their own interests. And finally, they can *ignore* reregulation initiatives. Politicians' reregulation strategies should have a strong influence on how societal groups choose among these options. The relative power of societal groups should also be an important factor in how they respond to reregulation efforts.

Applying the Framework: The Case of Mexico

Neoliberal reforms in Mexico's coffee sector did not have the effects anticipated by their technocratic architects. Rather than unleashing free-market forces, the deregulation of coffee triggered reregulation projects by state-level incumbents who sought to control policy domains vacated by the federal government agency, INMECAFE. Producer groups responded to these reregulation projects in different ways. Some mobilized to modify or defeat the projects, others chose to ignore them. The interactions between state governments and producer organizations resulted in a diverse array of new institutions for market governance across Mexico's coffee-producing states.

In the states of Oaxaca and Chiapas the politics of reregulation led to *participatory policy frameworks* that gave organizations of small producers central roles in policy-making. In addition to meeting producer demand for a voice in the policy process, these participatory frameworks fostered partnerships between the public sector and producer organizations that helped improve the welfare and market competitive-

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ness of small coffee farmers. In the states of Guerrero and Puebla, by contrast, the politics of reregulation resulted in *exclusionary policy frameworks* that denied small producers access to the policy process. These exclusionary frameworks generated spoils for political and economic elites, undermining the efficiency of coffee production.

Why did reregulation in Oaxaca and Chiapas result in institutions that promoted the welfare of small farmers and offered them new channels for participating in policy decisions? Why did reregulation in Guerrero and Puebla yield institutions that served elite interests and reproduced long-standing patterns of exclusionary, top-down policymaking? The following sections deploy the analytic framework developed above to explain these divergent outcomes. The analysis focuses initially on the different reregulation projects pursued by state governments. It then shows how bargaining between politicians and producer organizations over the terms of reregulation resulted in distinct policy frameworks.

Reregulating Coffee

In 1989, after two decades of extensive intervention in production and marketing of coffee, one of Mexico's major sources of foreign exchange,[25] INMECAFE began to withdraw, a move that eliminated production supports, price controls, and government-managed marketing channels for more than 200,000 small coffee producers.[26] For most small producers, the dismantling of INMECAFE's massive purchasing network gave them few options but to sell their harvests at exploitatively low prices to local middlemen.

The governments of the major coffee-producing states responded to INMECAFE's exit by launching two types of reregulation projects: one, *neocorporatism,* and the other, *crony capitalism.* In Oaxaca and Guerrero state government officials took INMECAFE's departure as an opportunity to resurrect weakened corporatist institutions of political control in the coffee sector. They launched *neocorporatist* reregulation projects intended to give monopoly control of interest representation to official coffee-producer organizations—those affiliated with the ruling Institutional Revolutionary Party (PRI), which had governed Mexico without interruption for six decades. These projects sought to incorporate the

[25] Between 1970 and 1989 coffee averaged 5.1 percent of the total value of Mexico's exports and 34 percent of the total value of agricultural exports. Approximately three million Mexicans depend on income from coffee production. See Santoyo Cortés et al. (fn. 2).

[26] Small producers have less than twenty hectares of land (or approximately fifty acres).

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thousands of small producers who had previously been tied to the PRI through INMECAFE into new, authoritarian institutions of interest representation.

Neocorporatist projects involved (1) transferring INMECAFE's resources (for example, agroindustrial machinery) to government-sponsored small producer organizations and (2) constructing new mechanisms for regulating distribution of credit that excluded independent organizations not affiliated with the PRI. The neocorporatist project in Guerrero included outright repression of independent organizations and efforts to co-opt their leaders. These coercive measures were intended to force the organizations to renounce their independent status and affiliate with the PRI's National Peasants' Confederation (CNC).

In Chiapas and Puebla, by contrast, state governments pursued *crony capitalist* reregulation projects designed to benefit the coffee oligarchy. These projects sought to turn the clock back to the period preceding the intervention of INMECAFE, when local elites had dominated the coffee economy. In contrast to neocorporatist projects, which focused on building new institutions of interest representation for small producers, crony capitalist projects focused on resurrecting the monopoly control by local elites over coffee processing and marketing.

Crony capitalist projects involved efforts to create marketing boards managed by the coffee oligarchy. The government of Chiapas, for example, sought to give prominent members of the oligarchy control over licenses to export coffee. In addition to creating a major source of rents and income for these private elites, this new regulatory power promised to help keep small producer cooperatives out of export markets and thus force them to sell at low prices to elite-owned exporting firms.

What explains these different responses to the withdrawal of INMECAFE? Why did the governors of Oaxaca and Guerrero pursue neocorporatist strategies focused on smallholders, while the governors of Chiapas and Puebla chose crony capitalist policies oriented toward oligarchs? The analysis below shows how Mexico's federal regime institutions gave state governors powerful incentives to reregulate policy areas vacated by neoliberal reforms. Although institutional factors help explain *why* governors reregulated, such factors do not explain *how* they reregulated. To account for their different reregulation strategies, we need to focus on societal forces and policy repertoires. In states where small producers or oligarchs dominated the coffee sector (for example, Guerrero and Puebla), societal forces explain governors' strategies: the goal was to benefit the dominant group. By contrast, in states with no

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dominant producer group (for example, Oaxaca and Chiapas), policy repertoires played the decisive role: governors chose strategies that fit their ideological orientations.

FEDERALISM AND UPWARD ACCOUNTABILITY

In federal systems subnational units are potentially autonomous policy jurisdictions. Mexico's federal institutions empowered incumbents at the subnational level, especially state governors, to reregulate what federal law had deregulated.[27] Federalism thus defined the politics of reregulation in the coffee sector as an essentially *subnational* process.

Other core regime institutions structured accountability in ways that gave Mexican governors significant autonomy from societal interests. A constitutional prohibition against immediate reelection to the same office weakened incentives for elected officials to perform constituency service. Furthermore, virtually all governors were directly appointed by the president, who could also dismiss them.[28] Because governors could not run for reelection and typically hoped to move on to high-level federal posts after completing their terms, their career futures depended on loyalty to actors at the center (that is, to the president or to a national-level political faction). Hence, governors were *upwardly* accountable to national political elites, not *downwardly* accountable to voters and interest groups. But if such upwardly accountable governors had autonomy from interest groups inside their states, why would they seek to deliver targeted benefits to such groups and respond so eagerly and decisively to opportunities for reregulating markets? To answer these questions requires more knowledge about governors' motivations than can be deduced from the formal rule prohibiting reelection.

Until the late 1990s Mexico had a hegemonic party system in which virtually all governors were affiliated with the PRI.[29] Ruling party elites expected governors to maintain political stability and deliver quotas of votes to the PRI in local and federal elections. Governors who failed to accomplish these tasks saw their career fortunes plummet, and many were dismissed by the president, as illustrated vividly by the case of Guerrero, where since 1917 only six governors have completed a full,

[27] See Richard Snyder, "After the State Withdraws: Neoliberalism and Subnational Authoritarian Regimes in Mexico," in Wayne A. Cornelius et al., eds., *Subnational Politics and Democratization in Mexico* (La Jolla, Calif.: Center for U.S.-Mexican Studies, University of California, San Diego, forthcoming).

[28] Carlos Martínez Assad and Alvaro Arreola Ayala, "El poder de los gobernadores," in Soledad Loaeza and Rafael Segovia, eds., *La vida política mexicana en la crisis* (Mexico City: El Colegio de México, 1987).

[29] Wayne A. Cornelius, *Mexican Politics in Transition: The Breakdown of a One-Party Dominant Regime* (La Jolla, Calif.: Center for U.S.-Mexican Studies, 1996).

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TABLE 1
INSTITUTIONAL CONTEXT OF GUBERNATORIAL DECISION MAKING IN MEXICO (1940–95)

Rules of Office[a]	*Incentives for Governors*
Formal rule	
no reelection	upward accountability to political masters; ignore societal groups
Informal rules	
appointed by the president	upward accountability to political masters; ignore societal groups
future career prospects depend on national-level elites (e.g., the president and PRI leaders)	upward accountability to political masters; ignore societal groups
maintain political stability	downward responsiveness to societal interests; seek alliances with societal groups
secure quotas of votes for PRI	downward responsiveness to societal interests; seek alliances with societal groups

[a]With the exception of no reelection, these rules of office did not apply to the handful of governors in several northern states after 1988 who were affiliated with the center-right opposition National Action Party (PAN). None of those states produce significant amounts of coffee.

six-year term.[30] To get out the vote and maintain political stability, governors faced pressures to ally with local groups such as traditional elites who controlled patronage networks and political bosses from the PRI's corporatist confederations. Even in the absence of a direct electoral connection, then, the unwritten rules of Mexico's political system gave governors strong incentives to forge support coalitions, at least to the extent necessary to maintain stability and deliver sufficient votes for the ruling party on election day.[31] Paradoxically, upward accountability to political elites at the center created pressures for downward responsiveness by governors to local interest groups.

Hence, as summarized in Table 1, although most governors entered office with autonomy from societal interests, their autonomy was bounded by the dual imperatives of securing votes for the PRI and maintaining stability. When the federal government implemented neoliberal reforms, reregulation offered a potent, new tool for governors to

[30] Manuel González Oropeza, *La intervención federal en la desaparición de poderes*, 2d ed. (Mexico City: Universidad Nacional Autónoma de México, 1987); and Alba Teresa Estrada Castañón, *Guerrero: sociedad, economía, política, cultura* (Mexico City: Universidad Nacional Autónoma de México, 1994), 75.

[31] The term "electoral connection" is from Mayhew (fn. 21).

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build the selective alliances with societal groups they needed to manage these imperatives and protect their career fortunes. The fact that the timing of the economic reforms coincided with a period of growing pressures for democratization and escalating political instability across Mexico made reregulation an especially important political weapon at the subnational level.

Taken together, federalism and upward accountability help us understand why reregulation in Mexico was a process led by state governors. However, regime institutions by themselves cannot explain governors' reregulation strategies: although governors labored under similar institutional constraints, they chose strikingly different strategies. To account for this variation, we need to turn from regime institutions to societal forces and the policy repertoires available to governors.

A POLARIZED SECTOR

Like agroexport industries in many developing countries, Mexico's coffee sector has a polarized production profile. At one extreme, 71 percent of coffee farmers have under two hectares of land each and produce only 25 percent of national output. At the other extreme, less than .5 percent of coffee farmers produce 22 percent of national output.[32] These large farmers usually own processing equipment, and many earn a major portion of their income from processing and marketing coffee grown by small farmers. The main socioeconomic cleavage in the coffee sector thus divides peasant smallholders, who have little or no agroindustrial infrastructure, from an agrarian-industrial oligarchy that controls processing and marketing—the most profitable stages of production.

In an effort to strengthen political control in the countryside and increase foreign-exchange earnings, Mexico's federal government began to intervene heavily in the coffee sector in the early 1970s. The principal instrument of government intervention was the state-owned enterprise INMECAFE, which, in addition to controlling export quotas for all producers,[33] organized and dramatically expanded smallholder production. INMECAFE competed with the agrarian-industrial elite by opening alternative, government-managed processing and marketing channels that guaranteed small producers a set minimum price. In the late 1970s

[32] Santoyo Cortés et al. (fn. 2), 25–30. This group comprises farmers with more than twenty hectares.

[33] Export quotas were part of the International Coffee Organization's (ICO) regulatory regime. See Robert H. Bates, *Open-Economy Politics: The Political Economy of the World Coffee Trade* (Princeton: Princeton University Press, 1997).

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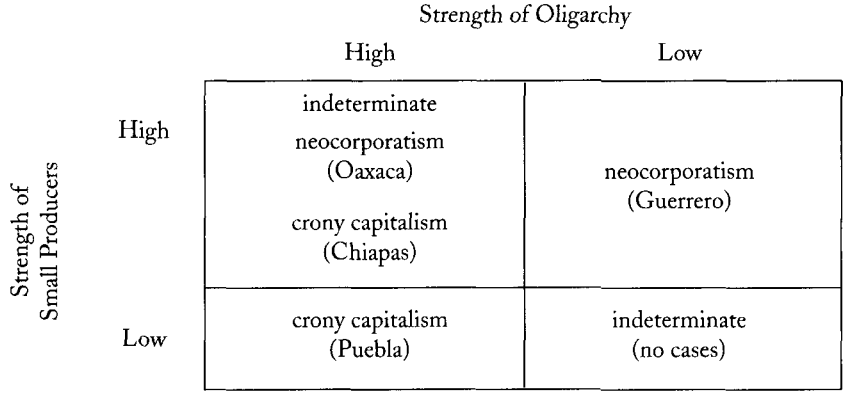

FIGURE 2
SOCIETAL FORCES AND REREGULATION STRATEGIES

SOURCE: Measures of the strength of small producers and oligarchies are based on "Censo Cafetalero 1992, Estratificación de los predios por estado," INMECAFE (1992); and on author interviews with producers and federal and state government officials.

and throughout the 1980s many small farmers also organized autonomously to form producer-owned cooperatives that would establish new marketing channels free from the control of both the agrarian-industrial elite and INMECAFE.[34]

The coffee sector's polarized production profile gave national-level politicians two distinct options for deploying regulatory policy to their political advantage. They could help small producers improve their terms of exchange with the agrarian-industrial elite by intervening to give small farmers greater control over coffee processing and marketing. Alternatively, they could help the agrarian-industrial elite maintain its hegemony. Under INMECAFE's supervision, a relatively uniform national regulatory scheme privileged small producers during the 1970s and 1980s. At the end of the 1980s, however, neoliberal reforms destroyed this national-level framework, giving state governors opportunities to launch new regulatory initiatives at the subnational level.

In Guerrero and Puebla the distribution of power between small producers and agrarian-industrial oligarchs strongly constrained the reregulation strategies open to governors when INMECAFE withdrew. As illustrated by Figure 2, the weakness of Guerrero's oligarchy eliminated

[34] Ejea and Hernández (fn. 2).

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crony capitalism as a feasible strategy. In Puebla, by contrast, the weakness of small producers eliminated neocorporatism as a viable strategy. Although these subnational variations in social structure help explain why crony capitalism was not possible in Guerrero and, conversely, why neocorporatism was not possible in Puebla, a focus on societal forces alone is not sufficient to account for reregulation initiatives. Reregulation projects resulted from the actions of governors, not from lobbying by coffee farmers. Hence, societal pressures do not explain why politicians sought to reregulate in the first place: if they had been passive instruments of organized societal interests, the governors of Guerrero and Puebla should have responded to INMECAFE's withdrawal by doing nothing. The absence of a "reregulation lobby" in the two cases strengthens the argument that the impulse to reregulate stemmed not from interest group pressure but from governors' institutionally defined career incentives.

The cases of Oaxaca and Chiapas, which saw different reregulation projects despite similar configurations of societal forces, further underscore why a focus on societal demands cannot by itself explain politicians' reregulation strategies. As Figure 2 illustrates, the coexistence of powerful small producer movements and powerful oligarchies in Oaxaca and Chiapas weakly constrained governors' reregulation options: they could have chosen neocorporatist or crony capitalist projects. To understand why the governor of Oaxaca pursued neocorporatist policies favoring smallholders, while the governor of Chiapas chose crony capitalist policies favoring oligarchs, we need to analyze their divergent policy repertoires.

POPULISTS AND NEOLIBERALS

Heladio Ramírez López (1986–92), the governor of Oaxaca when INMECAFE withdrew, was a relic of a bygone populist era. He had launched his political career in the early 1970s with support from close advisers to President Luis Echeverría Alvarez (1970–76), and his political identity and policy preferences were forged in the mold of the statist-populist policies dominant at that time.[35] Ramírez articulated his vision of the appropriate role for government in Oaxaca through the concepts of "Social Liberalism" and "Social Rule of Law."[36] According to the official document summarizing the "legal framework" for

[35] See Roderic Ai Camp, *Mexican Political Biographies, 1935–1993* (Austin: University of Texas Press, 1995), 575.

[36] The concept of "social liberalism" was in vogue at the national level after 1988. See Miguel Angel Centeno, *Democracy within Reason: Technocratic Revolution in Mexico*, 2d ed. (University Park: Penn State University Press, 1997), 205–10.

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Ramírez's administration, the Social Rule of Law sought to "overcome the limitations of classical, individualistic liberalism, which was characterized by state abstention, through dynamic state intervention that . . . promotes social justice and welfare." The document criticized perspectives that saw the government's role as limited to contract enforcement and protection of individual rights, because they were "imbued with a liberal, individualistic philosophy that paralyzes [the state's] activity and minimizes its role."[37] Ramírez codified government responsibility for economic management by amending the state constitution to stipulate that "the state will plan, implement, coordinate, and orient local economic activity and carry out the regulation and promotion of activities corresponding to the public interest."[38]

Given Ramírez's populist roots and policy orientation, it is not surprising that he responded to the dismantling of INMECAFE by choosing the neocorporatist option over the crony capitalist one. The governor even appointed a former director of INMECAFE, Fausto Cantú Peña, to supervise the reregulation of the coffee sector. During the mid-1970s, as a member of President Echeverría's populist government, Cantú had orchestrated INMECAFE's transformation into a giant public enterprise with more than seven thousand employees. Under Ramírez's guidance, Cantú founded a new state government agency—the State Coffee Council of Oaxaca—which he envisioned as a mini-INMECAFE that would resurrect on a subnational scale the regulatory framework he had built fifteen years earlier at the national level.[39]

In Chiapas, by contrast, the governor had a starkly different conception of the appropriate role for government. José Patrocinio González Blanco (1988–93) avidly embraced President Carlos Salinas de Gortari's (1988–94) project of market-oriented reform and economic "modernization."[40] González's economic policies combined privatization of government-owned enterprises with promotion of external investment in tourism, urban consumer goods and services, and agricultural exports.[41]

In the rural sector, González's government sought to expand large-scale commercial agriculture, especially cultivation of tropical fruit. Ex-

[37] *Del Oaxaca mágico al encuentro con la modernidad: Seis años de transformación y desarrollo, 1986–1992, marco legislativo* (Oaxaca: Government of Oaxaca, 1992), 18.

[38] Ibid., 45–46.

[39] Fausto Cantú Peña, "Proyecto de ley para el fomento y desarrollo integral de la cafeticultura en el estado de Oaxaca," in *Primer encuentro estatal de estudio, analisis y capacitación sobre cafeticultura* (Oaxaca: Secretaría de Desarrollo Rural, 1989).

[40] On the complex meanings of modernization among Mexican political elites, see Centeno (fn. 36), chap. 7.

[41] Neil Harvey, "Rebellion in Chiapas: Rural Reforms, Campesino Radicalism, and the Limits to Salinismo" (La Jolla, Calif.: Center for U.S.-Mexican Studies, 1994).

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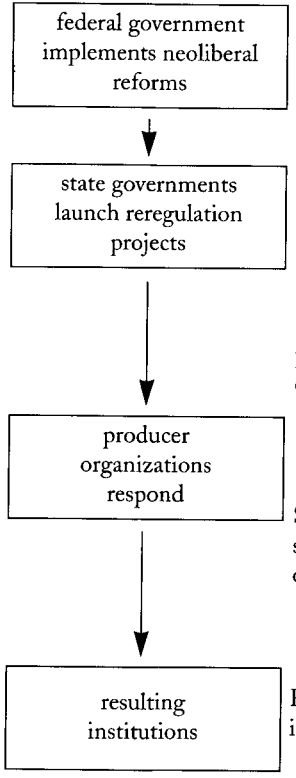

TABLE 2
NEGOTIATING THE TERMS OF REREGULATION

	Oaxaca	*Guerrero*	*Chiapas*	*Puebla*
Reregulation project	neocorporatist	neocorporatist	crony capitalist	crony capitalist
Response of small producer organizations	**engaged productivist strategy** (i.e., seek to modify project)	**partisan strategy** (i.e., seek to defeat project)	disengaged productivist strategy (i.e., ignore project)	disengaged productivist strategy (i.e., ignore project)
Strength of small producer organizations	high	high	**high**	**low**
Resulting institutions	participatory policy framework	exclusionary policy framework	stalemate; federal intervention subsequently leads to participatory policy framework	exclusionary policy framework

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port crops, such as banana, mango, melon, and citrus fruits, received special attention, as evidenced by the government's major project to upgrade the state's port facilities.[42] Large agribusiness export firms benefited most from these improvements in infrastructure, which helped lower their transportation costs and reduce shipment delays.

In contrast to Ramírez in Oaxaca, who pumped resources into a new government agency (the State Coffee Council) and launched a massive campaign of public investment that targeted small coffee producers, González sought to increase the export potential of large-scale agribusiness, which neoliberal doctrine defined as the most efficient, competitive form of production. And neoliberalism, with its emphasis on increasing the export potential of big agribusiness in sectors where Mexico had comparative advantages, was interpreted by the governor of Chiapas as legitimating crony capitalist reregulation. To promote coffee exports, González created a small regulatory agency charged mainly with issuing export licenses. He appointed owners of major coffee-exporting firms to supervise the new agency.[43] In the hands of these elites, regulatory power served as a tool for attempting to block efforts by small producer cooperatives to export their coffee directly instead of selling it at exploitative prices to elite-controlled exporting firms.[44] The governor's response to the dismantling of INMECAFE, which was congruent with his neoliberal policy orientation, gave agrarian-industrial oligarchs in Chiapas an important opportunity to reassert their monopoly control over coffee exports.

Negotiating the Terms of Reregulation

Although Mexico's governors moved decisively to control policy domains vacated by INMECAFE, they often failed to achieve their vision of how reregulation should be carried out. In Chiapas, for example, a powerful movement of small producers blocked the governor's efforts to help the oligarchy. And in Oaxaca, despite the governor's plan to impose an exclusionary policy framework that favored smallholders affiliated with the PRI, small producer organizations autonomous from the ruling party gained a dominant position within the new framework. As summarized in Table 2, three key variables explain these different out-

[42] Sergio Mota Marín, "Estructura económica de Chiapas," in María Luisa Armendáriz, ed., *Chiapas, una radiografía* (Mexico City: Fondo de Cultura Económica, 1994), 338–39.

[43] Government of Chiapas, "1a. reunión del Subcomite Especial de Producción y Comercialización del Café: Minuta de trabajo" (Tuxtla Gutierrez, March 7, 1989).

[44] Author interviews with leaders of coffee producer organizations, Chiapas, November 1995.

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comes: the type of reregulation project, the response of small producer organizations, and the strength of those organizations.

The cases of Oaxaca and Guerrero highlight how the responses of producer organizations to governors' projects influenced the results of reregulation. Although neocorporatist projects were launched in both states, reregulation led to strikingly different institutional outcomes because of the distinct strategies of powerful producer movements. In Oaxaca the producer movement pursued an *engaged productivist* strategy that combined a focus on economic development goals with efforts to modify the governor's project. Because this strategy emphasized nonpartisan, economic objectives that did not pose a political threat to the state government, the governor was eventually willing to accommodate the producer organizations, and a participatory policy framework resulted. In Guerrero, by contrast, the powerful producer movement joined a broader struggle for political democracy in Mexico, thereby choosing a *partisan* strategy aimed at defeating the governor's project. Consequently, the possibilities for accommodation between the governor and the producer organizations were much weaker than in Oaxaca, and an exclusionary framework resulted.

The cases of Chiapas and Puebla show how variations in the strength of producer organizations affected reregulation processes. In both states producer organizations faced crony capitalist projects and chose *disengaged productivist* strategies that ignored the governor's project and focused instead on autonomous, grassroots development initiatives. Despite these similar producer responses, reregulation led to distinct institutional outcomes because of the varied strengths of the producer movements in the two cases. In Chiapas reregulation resulted in a stalemate because a powerful producer movement was capable of stalling the governor's crony capitalist initiative through its refusal to participate in his scheme. This stalemate was subsequently broken by an alliance between federal government reformists and the producer movement, which led to a participatory framework. By contrast, because a weak producer movement in Puebla lacked the capacity either to achieve a stalemate or to forge an alliance with federal reformists, reregulation resulted in an exclusionary framework.

The following sections analyze how institutions for market governance were reconstructed in each of the four cases after INMECAFE was dismantled. The discussion focuses on the interactions between state governors and producer organizations as they competed for influence over the new institutions that replaced those destroyed by the neoliberal reforms.

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PARTICIPATORY POLICY FRAMEWORKS: OAXACA AND CHIAPAS

The cases of Oaxaca and Chiapas illustrate two distinct paths from deregulation to participatory institutions for market governance. In Oaxaca the lack of a dominant socioeconomic group in the coffee sector enabled the governor to pursue his populist policy agenda when INMECAFE withdrew. He took advantage of this opportunity by launching a neocorporatist reregulation project designed to benefit small producers affiliated with the PRI's official peasant confederation, that is, the CNC. When the governor launched his project in early 1989, a handful of autonomous small producer organizations were operating outside the CNC. A further objective of the neocorporatist project was to contain and weaken these autonomous groups by restricting representation within the new policy framework to CNC affiliates.

Ironically, the governor's project had the opposite effect: instead of undermining the independent producer organizations, it helped strengthen them. The threat of exclusion from the new institutions for market governance gave the independent organizations powerful incentives to join forces and mobilize. They soon formed a statewide confederation of autonomous producer organizations—the Coordinating Committee of Coffee Producers of Oaxaca (CEPCO). By offering marketing support and technical assistance, CEPCO rapidly recruited thousands of small producers who had previously depended on INMECAFE for these services. By late 1989 CEPCO was the most powerful producer organization in Oaxaca, comprising more than half of the state's fifty thousand small coffee farmers.

CEPCO pursued an engaged productivist strategy, which integrated a focus on economic development goals with efforts to gain inclusion in the emerging state-level policy framework. The organization successfully challenged the governor's neocorporatist project, winning formal representation in the State Coffee Council, the new state government agency responsible for policy in the coffee sector. The council subsequently served as an arena in which the government of Oaxaca and the producer organizations designed innovative, collaborative programs that made small coffee farmers more competitive in global markets.[45]

In Oaxaca the combination of institution building from above (that is, the governor's neocorporatist project) with organized pressure from below (that is, CEPCO's engaged productivist strategy) resulted in new

[45] See Richard Snyder, "Reconstructing Institutions for Market Governance: Participatory Policy Regimes in Mexico's Coffee Sector," in Richard Snyder, ed., *Institutional Adaptation and Innovation in Rural Mexico* (La Jolla, Calif.: Center for U.S.-Mexican Studies, forthcoming).

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institutions that enhanced the efficiency and quality of smallholder production. Through his efforts to strengthen peasant support for the ruling party by reregulating coffee, the governor of Oaxaca unwittingly supplied institutional raw materials that a powerful grassroots movement was able to rework into a participatory policy framework.

In Chiapas, by contrast, reregulation took a different course. There the governor's reregulation project posed a major obstacle to constructing a participatory policy framework, in its reliance on a crony capitalist strategy. The crony capitalist project rested on the assumption that small farmers should cede responsibility for coffee processing and marketing to elite-owned agroindustrial firms. Because the principal goal of most small producer organizations in Chiapas was precisely to gain control of these lucrative processing and marketing activities, the crony capitalist project gave them weak incentives to choose an engaged productivist strategy. In contrast to Oaxaca's small producer organizations, which encountered a neocorporatist project compatible with their core economic objective of managing the processing and marketing of coffee, the small producer organizations in Chiapas confronted a reregulation project premised on denying these very aspirations. Consequently, they pursued a disengaged productivist strategy, ignoring the governor's crony capitalist initiative and directing their energies instead toward autonomous economic development projects.[46] By launching their own marketing cooperatives, the small producer organizations denied the elite-owned agroindustrial firms sufficient quantities of raw coffee to consolidate the crony capitalist scheme. The politics of reregulation in Chiapas thus initially led to a stalemate.

The stalemate ended in 1994 as a consequence of the Zapatista peasant rebellion in eastern Chiapas.[47] The severe threat of ungovernability posed by the Zapatistas induced reformist federal officials to ally with the small coffee producer movement against the state government and coffee oligarchy. This reformist alliance defeated the crony capitalist forces, laying the foundations for a participatory policy framework.

In both Oaxaca and Chiapas powerful grassroots producer movements played pivotal roles in constructing participatory institutions for market governance. But in Chiapas the governor's crony capitalist project supplied weak incentives and poor institutional ingredients for a Oaxaca-style reworking from below. To forge a participatory policy

[46] Attempting to defeat the crony capitalist project would have been extremely costly for the small producers, given the state government's coercive capacities and demonstrated willingness to repress peasants. On state government repression in Chiapas, see Harvey (fn. 41).

[47] On the Zapatista uprising, see Harvey (fn. 41).

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framework, the producer movement in Chiapas first had to defeat the crony capitalist coalition of the state government and the coffee oligarchy. External allies proved necessary to achieve this goal.

EXCLUSIONARY POLICY FRAMEWORKS: GUERRERO AND PUEBLA

The cases of Guerrero and Puebla show how the politics of reregulation can result in exclusionary policy frameworks detrimental to small producers. Like his counterpart in Oaxaca, the governor of Guerrero also launched a neocorporatist project in response to INMECAFE's dismantling. In Guerrero, as in Oaxaca, a powerful small producer movement organized outside the PRI's official peasant confederation. However, Guerrero's independent producer movement had consolidated at the beginning of the 1980s, significantly earlier than the independent movement in Oaxaca, which formed in 1989 in direct response to the governor's reregulation project. The early consolidation of Guerrero's independent movement shaped its reaction to the governor's reregulation project in ways that hindered the construction of a participatory policy framework.

After hotly contested presidential elections in July 1988, the coffee producer movement in Guerrero became increasingly involved in partisan politics. The most important producer organization threw its support behind the center-left Party of the Democratic Revolution (PRD), and many rank and file became militant members of this new opposition party. When the governor launched his neocorporatist reregulation project the following year, the independent producer movement had already committed itself to the struggle for political democracy. In contrast to the newly formed statewide producer organization in Oaxaca (CEPCO), which carefully avoided partisan affiliations and focused instead on engaging and modifying the governor's neocorporatist project, Guerrero's independent organizations pursued a partisan strategy intended to advance political democratization and defeat the neocorporatist project. In Guerrero the producers' choice of a partisan strategy contributed to politicization and polarization of the coffee sector, which led to an exclusionary policy framework that yielded virtually no economic benefits for the farmers.

In Puebla, by contrast, small producers had few options. An engaged productivist strategy was not feasible, because Puebla's small producer organizations, like their counterparts in Chiapas, faced a crony capitalist project. Furthermore, the extreme weakness of Puebla's producer movement due to its small size eliminated the possibility of mobilizing to defeat the governor's project. Because of these constraints, Puebla's

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producer organizations had little choice but to pursue a disengaged productivist strategy.

In contrast to their powerful counterparts in Chiapas, who also chose such a strategy, Puebla's small producer organizations were not strong enough to achieve a stalemate. In Puebla, as in Chiapas, reformist federal officials eventually attempted to intervene against the crony capitalist forces. These efforts failed, however, because of the weakness of Puebla's small producer organizations. The absence of a strong producer movement undercut the potential for an alliance between grassroots organizations and reformist federal officials. Whereas such an alliance defeated the crony capitalist coalition and forged a participatory policy framework in Chiapas, the crony capitalist forces in Puebla faced no significant opposition. The politics of reregulation thus resulted in an exclusionary policy framework that served the interests of the oligarchy.

Postneoliberal Pathways: Lessons from Mexico

These varied institution-building processes in a single sector in just one country provide a strong basis for expecting that neoliberal reforms have left a rich legacy of new institutions across sectors and nations. From the Mexican case, we can distinguish two plausible patterns of institution building after neoliberalism: innovation along corporatist lines and, alternatively, resurgence of traditional elites.

Institutional Innovation along Corporatist Lines

Students of comparative political economy are increasingly skeptical about the efficacy of corporatist institutions at managing challenges of economic adjustment.[48] This skepticism is based largely on the experiences of European cases, such as Sweden and Austria, where pressures from globalization of markets (for example, increasing demands for labor flexibility) eroded social democratic corporatist arrangements that, until the 1980s, delivered political stability and economic dynamism.

Despite such skepticism, the case of Oaxaca shows that innovation along corporatist lines is still feasible. In Oaxaca a neocorporatist reregulation project, originally intended to strengthen authoritarian modes of policy-making, instead supplied incentives and institutional raw ingredients with which a grassroots producer movement was able to forge

[48] See Jonas Pontusson, *The Limits of Social Democracy: Investment Politics in Sweden* (Ithaca, N.Y.: Cornell University Press, 1992); and Haggard and Kaufman (fn. 8), 340–45.

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a participatory policy framework. The State Coffee Council of Oaxaca served as an arena for mobilizing consensus among competing interests in the coffee sector and launching collaborative projects between government and producers. These collaborations creatively combined producer organizations' social capital with government's state capital in ways that improved the efficiency and quality of coffee production. The case of Oaxaca illustrates how engaged productivist organizations can transform exclusionary corporatist institutions into participatory policy frameworks that help manage the challenges of competing in the global marketplace.

Viewed this way, corporatist heritages—even those of the top-down, state corporatist variety—may offer important institutional comparative advantages for reconciling the often conflicting imperatives of political stability and economic growth.[49] The task in developing countries with such heritages, for example, Brazil, Venezuela, Egypt, Ghana, and Ivory Coast, may therefore be to make corporatism work by making it inclusive and participatory, rather than to get rid of it.

The case of Guerrero, however, reminds us of the difficulties of crafting participatory policy frameworks from corporatist institutions in nondemocratic political systems. A neocorporatist reregulation project for a particular economic sector may often be linked to the maintenance of an authoritarian political regime. Producers are citizens, too, and if they become embroiled in struggles to democratize the political regime, framing their opposition to the neocorporatist project in partisan terms, as occurred in Guerrero, then it may be extremely difficult to establish a participatory policy framework. Spillover into the sector of contentious issues related to democratization may lead to politicization, causing the government to rigidify and refuse to bargain with a producer movement it perceives as part of the political opposition. Furthermore, producers motivated by partisan and civic goals may be reluctant to negotiate with the government for inclusion in the policy arena, because they may decide that gaining admission is not worth compromising their struggle for political democracy. As illustrated by the case of Guerrero, polarization and an exclusionary policy framework are the likely results.

These contrasts between the cases of Oaxaca and Guerrero, where neocorporatist projects led to distinct policy frameworks, suggest powerful tensions between political democratization, on the one hand, and

[49] On "state corporatism," see Philippe C. Schmitter, "Still the Century of Corporatism?" *Review of Politics* 36 (January 1974).

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the construction of participatory institutions for market governance, on the other. In the context of an authoritarian regime undergoing neoliberal reforms, one of the costs of choosing to be a democrat first and a producer second may be forfeiting the opportunity to build economic institutions that could help improve welfare and competitiveness.

Resurgence of Traditional Elites

Countries with corporatist traditions of interest intermediation exist across the developing world. In such places, neoliberal reforms should give politicians strong incentives to launch neocorporatist reregulation projects to mobilize mass support. Mobilization of mass support is not always the strategy politicians prefer, however. In cases where societal elites are powerful, political incumbents may face compelling pressures to ally with them by choosing crony capitalist projects.

As illustrated by the cases of Chiapas and Puebla, neoliberal reforms can create opportunities for traditional elites to reassert their hegemony. Neoliberal policies get the state off these elites' backs, allowing them to return to business as usual, which means enjoying monopoly control over regional markets. If private elites command significant social control through patron-client networks, politicians may have strong incentives to seek their support by launching crony capitalist projects. Rather than leading to idyllic, decentralized governance, neoliberal reforms in the context of resilient traditional elites are likely to revive old-fashioned decentralization, that is, the uncontested hegemony of local oligarchs.

The case of Chiapas shows how alliances between strong grassroots organizations and reformist, national-level officials can offset the power of local elites, allowing the construction of participatory policy frameworks even in polarized contexts with strong oligarchies.[50] When neoliberal reforms are launched in places with powerful oligarchies, such alliances are probably a necessary condition for participatory policy frameworks. If reformist government officials are absent or weak, transnational nongovernmental organizations and solidarity networks may serve as partial substitutes by providing resources that help sustain grassroots mobilization. However, such external organizations often cannot give durable, long-term support.

The alternative scenario is seen in the case of Puebla, which illustrates the difficulties of building and sustaining reformist alliances in

[50] In his study of rural food provision, Fox calls this the "sandwich strategy"; see Jonathan Fox, *The Politics of Food in Mexico: State Power and Social Mobilization* (Ithaca, N.Y.: Cornell University Press, 1993).

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the face of weak grassroots movements. Thus, in Puebla, where reform-oriented federal officials lacked organized pressure from below, they failed in their efforts to break the grip of local elites on the post-INMECAFE policy framework. This case serves as a sobering reminder that, rather than leading to efficient, unregulated markets, neoliberal reforms in contexts with powerful oligarchies and weak grassroots organizations are likely to result in new regulatory institutions that generate monopoly rents for societal elites.[51]

Summary and Questions for Future Research

Most recent work on the political economy of development seeks to explain why countries choose neoliberal policies or how they implement them. This study, by contrast, focuses on postimplementation issues, showing how neoliberal reforms can result in new institutions for market governance. Neoliberal shocks vacate policy areas, a situation that affords political incumbents opportunities to reregulate sectors of the economy. Politicians seize these opportunities because reregulation generates divisible benefits and targetable rewards that help them gain and keep power. Societal groups also have stakes in how markets are reregulated, and politicians' reregulation projects can give them compelling incentives to mobilize. Hence, reregulation may be a *negotiated* process in which politicians and societal groups bargain over the rules of new institutions for market governance that replace those destroyed by neoliberal reforms. The relative strengths and strategies of politicians and societal groups who participate in this bargaining will determine the distinct institutional outcomes.

To cast this argument in a systematic form, I propose a framework for analyzing the politics of reregulation. The framework consists of two steps with a dual focus—on politicians' choices of reregulation projects and on subsequent strategic interactions between politicians and societal groups regarding the terms of reregulation. First, incumbents' reregulation strategies are explained from a politician-centered perspective that connects societal forces, regime institutions, and policy repertoires to the shaping of policy choice. Second, institutional outcomes are explained from an interactive perspective that focuses on bargaining between politicians and societal interest groups as they compete to influence the terms of reregulation. These two steps help

[51] It bears emphasis that neoliberal reforms may result in the hegemony of *new*, rather than traditional, elites, as illustrated by the nontraditional oligarchies that have recently emerged in Russia and other former communist countries of Europe and Central Asia.

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explain why neoliberal reforms in Mexico led to exclusionary institutions for market governance in some states and to participatory institutions in others.

This study offers several lessons for shifting the focus from the politics of neoliberal reform to the politics of reregulation. To illustrate these lessons, it helps to underscore a fundamental difference between neoliberal reform and reregulation. Neoliberal reform imposes concentrated costs on powerful interest groups and creates mostly nonexcludable benefits, such as a stable currency, low inflation, and reduced fiscal deficits.[52] Reregulation, by contrast, creates concentrated gains and targetable, excludable benefits. To put it starkly, neoliberal reform is about *taking away* benefits, whereas reregulation is about *reintroducing* them. This fundamental difference has important implications for future research on the politics of reregulation.

First, we should go beyond the narrow emphasis on the commanding heights of the political system—heads of government and top-level technocrats—that characterized work on the politics of neoliberal reform. Rather, we need to broaden our focus to include rank-and-file legislators and subnational politicians. The distributive consequences of neoliberal reforms deflected attention from such midlevel incumbents, because they were correctly understood to have few incentives to support policies with concentrated costs and nonexcludable, delayed benefits. From the perspective of explaining the choice and implementation of neoliberal policies, "regular" politicians exposed to constituency pressures were seen as part of the problem, that is, as impediments to reform. Most work on the politics of neoliberal reform thus focused on high-level "change teams" consisting of top technocrats and national executives.[53] Because they were potentially insulated from constituency pressures, these elites were understood to have the capacity to inflict costs on organized interest groups and, hence, to play a proactive role implementing neoliberal policies.

The distributive consequences of regulatory policy (that is, targetable rewards and concentrated benefits) make it likely that regular politicians intent on securing divisible benefits for constituents, rather than insulated elite change teams, will be the pivotal players in the politics of reregulation. The case of Mexico illustrates this point: reregulation was launched by state governors facing complex political imperatives, not

[52] Haggard and Kaufman (fn. 8), 9, 156–59. For an argument that this pattern of costs and benefits does not fit the post-Soviet context, see Joel S. Hellman, "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions," *World Politics* 50 (January 1998).

[53] The term "change teams" is from Waterbury (fn. 8), 191.

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by high-level technocrats insulated from political pressures. Work thus needs to be done to specify better the institutional contexts that structure the incentives of political actors. This task affords an important opportunity for students of the political economy of development to draw on the burgeoning literature on institutions of political regimes.[54] That literature offers powerful analytic tools for unpacking regimes and exposing microlevel rules that define contexts of incumbent decision making and, hence, shape politicians' choices about reregulation strategies.

Shifting our focus from elite change teams to regular politicians also poses conceptual challenges. Work on the politics of neoliberal reform commonly employed highly aggregated regime categories.[55] Although such categories facilitate broad, cross-national comparisons, they often fail to illuminate politicians' decision-making contexts. An important priority for future research thus involves crafting fine-grained concepts that pinpoint key rules and incentives that constrain incumbents situated at distinct levels of political systems.

In addition to focusing on *new actors*, students of reregulation should also explore *new units of analysis*. A striking whole-nation bias characterizes work on the politics of neoliberal reform: most studies analyze national systems, rather than sectors, regions, or other subnational units.[56] Although a whole-nation focus may be appropriate for explaining macroeconomic stabilization, the highly divisible quality of regulatory policy suggests that reregulation dynamics will vary significantly across economic sectors and subnational administrative units. Hence, we need to move beyond whole-nation bias by employing research designs that disaggregate countries along sectoral and territorial lines. By making it easier to control for cultural, ecological, and socioeconomic variations, the study of subnational units within nations should complement efforts to focus more attention on how institutions determine politicians' incentives.[57]

Finally, this study's empirical findings from Mexico raise intriguing questions about the kinds of new institutions that replace those de-

[54] See, for example, Matthew Shugart and John M. Carey, *Presidents and Assemblies: Constitutional Design and Electoral Dynamics* (New York: Cambridge University Press, 1992); and Scott Mainwaring and Matthew Shugart, eds., *Presidentialism and Democracy in Latin America* (New York: Cambridge University Press, 1997).

[55] See, for example, Nelson (fn. 4), 23; Haggard and Kaufman (fn. 8); and Geddes (fn. 23).

[56] "Whole-nation bias" is discussed in Arend Lijphart, "The Comparable-Cases Strategy in Comparative Research," *Comparative Political Studies* 8 (July 1975), 166–69.

[57] On subnational comparisons, see Juan J. Linz and Amando de Miguel, "Within-Nation Differences and Comparisons: The Eight Spains," in Richard L. Merritt and Stein Rokkan, eds., *Comparing Nations: The Use of Quantitative Data in Cross-National Research* (New Haven: Yale University Press, 1966); and Gary King, Robert O. Keohane, and Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton: Princeton University Press, 1994), 219–23.

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stroyed by neoliberal reforms. The cases of Chiapas and Puebla, where neoliberal reforms triggered a resurgence of traditional elites, highlight the potential perils of political decentralization. Rather than leading to efficient allocation of resources by market forces, decentralizing reforms in places with powerful oligarchies may instead yield reregulated markets that generate monopoly rents for local elites. This finding challenges facile equations of decentralization with participatory governance that are common in the development literature.[58] Future work should specify further the conditions under which decentralizing reforms succeed or fail to deliver on their promise of stimulating participatory development.

Work on the politics of neoliberal reform has often lamented the lack of insulated technocratic agencies in developing countries, arguing that weak state capacity undermined economic adjustment by exposing the policy process to the distortions of political ambition.[59] The case of Oaxaca casts political ambition in a different light: politicians in pursuit of power may unintentionally supply institutional raw materials ripe for transformation into participatory policy frameworks. In Oaxaca the governor's neocorporatist reregulation project provided incentives for a reworking from below by grassroots producer organizations that yielded participatory institutions for market governance. Rather than insulating policymakers, then, the challenge facing developing countries may instead involve reconfiguring political institutions so that ambition induces incumbents to supply institutional ingredients for participatory policy frameworks. Viewed from this perspective, the soft state may have a silver lining.

Future research should specify the conditions under which political ambition contributes to the construction of participatory institutions for market governance. The Mexican case illustrates one set of conditions: politicians with populist policy repertoires and institution-building agendas together with powerful, engaged producer organizations capable of challenging government policy, yet committed to achieving self-management of their economic activities. By pushing their analyses beyond the politics of neoliberal reform, scholars could discover other pathways to participatory policy frameworks.

Studies that address issues such as these will improve our understanding of politics and the prospects for development after neoliberalism.

[58] See, for example, Interamerican Development Bank, "Fiscal Decentralization: The Search for Equity and Efficiency," in *Economic and Social Progress in Latin America: 1994 Report* (Washington, D.C.: Interamerican Development Bank, 1994).

[59] See, for example, Callaghy (fn. 7); and Nelson (fn. 5).

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DEMOCRATIZATION AND DISINTEGRATION IN MULTINATIONAL STATES
The Breakup of the Communist Federations

By CAROL SKALNIK LEFF*

STATE dissolution and reconstruction are relatively rare events in the modern state system. Indeed, as James Mayall argues, sovereignty norms and the status quo bias of most international actors militate against the encouragement of such experiments; waves of new state creation tend therefore to be restricted to the phenomenon of imperial collapse.[1] Regardless of whether the dissolution of the Soviet "imperium" should be understood literally in Mayall's sense, the collapse of communist regimes proved fertile ground for state disintegration and the creation of a new state.[2] In conjunction with this collapse and the attendant course of regime transformation in the Soviet Union and Eastern Europe, flawed but previously untouchable constitutional bargains on ethnonational relations unraveled, and this ultimately triggered the dissolution of three states—Yugoslavia, the USSR, and Czechoslovakia—all in a period of about eighteen months, from June 1991 to December 1992.

In retrospect, we are learnedly unsurprised at this development, citing the power of ethnonational conflict unleashed by communist collapse. Yet we should be more surprised and more challenged, for this phenomenon as a whole remains undertheorized. With notable exceptions, neither the phenomenon of state dissolution nor the larger question of postcommunist ethnonational conflict has received sufficient comparative scrutiny in the context of democratization theory. The broadest issue

* Thanks to Gerardo Munck for his insightful and patiently repeated readings of this article.

[1] Mayall, "Nationalism and International Security after the Cold War," *Survival* 34 (Spring 1992).

[2] For an exploration of the dissolution of the Soviet Union as an imperial collapse, see Karen Dawisha and Bruce Parrott, eds., *The End of Empire: The Transformation of the USSR in Comparative Perspective* (Armonk, N.Y.: M. E. Sharpe, 1997).

World Politics 51 (January 1999), 205–35

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addressed here, therefore, is the problematic interaction between democratization and the politics of national identity. Although the democratization process might hypothetically open avenues to conflict resolution, it is precisely in the context of the opening of the communist political systems that ethnonational tensions were reignited throughout the region. Clearly, one needs to explore more thoroughly the logic of democratization in multinational states—the interaction between regime change and challenges to the existing ethnonational bargains within states.

To the extent that regime change opens a window of opportunity to renegotiate the constitutional framework for ethnonational relations, an adequate theory of democratic transition must come to terms with such issues.[3] Juan Linz and Alfred Stepan, who have devoted the most sustained and useful attention to placing ethnonational conflict within democratization theory, speak of a "stateness" problem, defined as existing "when a significant proportion of the population does not accept the boundaries of the state (whether constituted democratically or not) as a legitimate political unit to which they owe obedience."[4] To frame the concept of "stateness" somewhat more broadly, a stateness problem may exist not only in the presence of disallegiance to the established territorial unit but also when significant sectors of the population are *agnostic* about that allegiance, pending consensus on the proper institutional expression for a multinational state. Pronounced ethnonational differences on this question leave open the stateness question, even without a clear impulse to independence.[5]

The stateness problem is also integral to democratic theory in a somewhat larger sense. A British aphorism widely quoted in the democratization literature affirms that "the people cannot decide unless it is first determined who are the people."[6] This adage underlines the fundamental democratic question of identifying the community in which democratic rights and responsibilities are to be vested. As Linz and Stepan argue, echoing earlier theorists of democratization, "agreements about stateness are *prior* to agreements about democracy," inasmuch as

[3] Donald L. Horowitz, *Ethnic Groups in Conflict* (Berkeley: University of California Press, 1985).

[4] Juan Linz and Alfred Stepan, "Political Identities and Electoral Sequences: Spain, the Soviet Union, and Yugoslavia," *Daedalus* 121 (Spring 1992), 123. For additional discussion of identity issues in democratic transitions, see Linz and Stepan, *Problems of Democratic Transition and Consolidation: Southern Europe, South America and Post-Communist Europe* (Baltimore: Johns Hopkins University Press, 1996); Claus Offe, "Capitalism by Democratic Design? Democratic Theory Facing the Triple Transition in East Central Europe," *Social Research* 58 (Winter 1991); Adam Przeworski et al., *Sustainable Democracy* (New York: Cambridge University Press, 1995), 1–39.

[5] Even though neither the major elite actors nor the public at large favored independence, Czechoslovakia certainly had a stateness problem because of disagreement over the appropriate form of the state.

[6] Dankwart Rustow, "Transitions to Democracy: Toward a Dynamic Model," *Comparative Politics* 2 (April 1970).

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the consent of the governed is an essential component of any democratic compact.[7]

The democratization literature tended initially to ignore stateness questions, understandably to the extent that the Latin American and Southern European cases to which it responded were not significantly plagued by such problems. To be sure, Spain, one of the flagship cases, did suffer from competing regionally based identities, and its transition represented the original basis for theorizing about democratization and stateness. However, it was the wave of regime change attendant on the collapse of communism that brought the problem to the fore.

This article revisits what has been a core—although usually unarticulated—premise of the democratization literature: that the decisions and negotiations that critically shape the transition should be analyzed in terms of a single, central political arena, a political space common to all actors. The key decisions that affect the course of transition are made in that arena, and it is this central institutional structure that competing elites seek to control and reconfigure. This approach to the study of regime change works fairly well even in some multinational states. However, the relative capacity of the center to shape the course of transition is in fact a *variable* that depends, among other factors, on the institutional structure of the state at the time of transition, and in particular on whether it is federal or unitary. In federal structures the democratic opening can create multiple, competing political arenas rather than a common political space; the interaction between these arenas reconfigures the dynamics of regime change. In short, federalism imposes a distinctive structure on elite positioning and strategic options. I will try to demonstrate the relevance of this structural variable to the process of regime change in the cases of postcommunist state dissolution. As will become clearer, the dissolution of states is a narrative of (1) erosion of central control over the transition process and thus over management of the stateness problem and (2) its displacement by republican arenas as the locus of definitive strategic action. In such cases, therefore, the analysis of actor strategies that create political openings, a central focus in democratization theory, must take into account the multidimensional chessboard on which actor decisions are played out.

This argument is developed in two stages. The first section differentiates cases of regime transition in terms of institutional structure and ethnonational composition. It then concentrates on the postcommunist

[7] Linz and Stepan (fn. 4, 1996), 26. See also Leonard Binder, ed., *Crises and Sequences in Political Development* (Princeton: Princeton University Press, 1971).

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multinational states, identifying some commonalities that occur in political dynamics regardless of institutional structure and then examining how identity politics differs in unitary and federal states, differences that flow from distinctive opportunity structures created by the presence or absence of institutional power bases outside the political center. The second section develops an argument about the importance of multiple and competing arenas of power with a detailed analysis of the Yugoslav, Czechoslovak, and Soviet cases of state dissolution. Here, too, differentiating the cases shows that the basic commonality of strategic setting does not augur a uniform dynamic of state collapse. The dynamic in fact varies according to the degree of republican autonomy from the center, variations in the locus of initiative for change (top down/bottom up), and consequent actor strategies, a repertoire that may include asymmetrical democratization processes within a single state, from one republic to the next. Nonetheless, the crucial development in all three cases is the loss of control by the center over the key state prerogatives of revenue extraction, coercion, and elite recruitment and the consequent ceding of initiative in regime change to the republics. Finally, the implications of this analysis are considered in terms of how democratization theorists may usefully understand the strategic choices of transition in multinational states.

Institutional Structure, Identity Politics, and Regime Change

To develop my argument about the potentially state-shattering impact of democratization, it is necessary to demonstrate that state dissolution is facilitated by the confluence of two factors—the multinational state and federation. This is done schematically in Figure 1 by distinguishing cases of regime change/democratization along two dimensions: the institutional form of the state at the time of transition and ethnonational composition. The following analysis will deal largely with the top two cells of the figure.

All three cases of postcommunist state dissolution—Yugoslavia, the USSR, and Czechoslovakia—fall into the upper-right-hand quadrant of the figure, underscoring a widely noted feature of the strategic setting of these cases : they represent the entire subset of communist *federal* states, and *only* that subset. Even more specifically, all three federations belong to a class of federative organization that Philip Roeder aptly described in the Soviet case as "ethnofederalism,"[8] where

[8] Philip G. Roeder, "Soviet Federalism and Ethnic Mobilization," *World Politics* 43 (January 1991).

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Character of Ethnic Diversity	Institutional Form in the Transition Period: Unitary	Federal
Territorially Concentrated Diversity	Bulgaria Romania Spain	Yugoslavia Soviet Union Czechoslovakia (ethnofederalism)
Homogeneity or Dispersion	Poland	Brazil

FIGURE 1
INSTITUTIONAL FORM AND ETHNONATIONAL DIVERSITY

territorial boundaries of the constituent units conform roughly to the distribution of the most important national groups within the multinational state.

Ethnofederal states thus differ from homogeneous states like Poland and Hungary in both ethnonational composition and institutional structure. And they differ in the political recognition of ethnonational identities from federal states like Argentina or Brazil—the former having a fairly integrated European settler population and the latter being a complex racially mixed society that affords neither a clear ethnic territorial base nor a concept of ethnic-regional identity to provide a basis for ethnofederalism.

Finally, ethnofederal states differ structurally from other multinational postcommunist states such as Bulgaria, Romania, and Spain, all of which were centralized unitary states at the onset of regime change. This point will receive further refinement later. Here I wish only to address two general points of qualification. First, *all* communist multinational states share commonalities in how identity politics shaped the opening up of the political systems to freer public discussion and organization and to competitive elections—that is, to liberalization and democratization.[9] Second, and more importantly, I must respond to a

[9] Transition theorists such as Guillermo O'Donnell and Philippe Schmitter distinguish between liberalization and democratization. Whereas the former represents a relaxation of regime constraints on discussion and organization, a process that could well be reversed, the latter involves opening the system to political competition and hence the possible displacement of the ruling elite. Of course, liberalization can always spin out of control and generate a democratic opening or transition, and indeed that is not an uncommon scenario. See O'Donnell and Schmitter, *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies* (Baltimore: Johns Hopkins University Press, 1986).

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possible objection. It could reasonably be questioned whether communist ethnofederalism truly qualifies as federalism. Federalism, after all, is generally understood as an institutional arrangement whereby authority and functional competences are shared among different levels of government. But given the overarching central direction of the communist party, are not all communist states in effect unitary states, and can it therefore be justified to argue that a purely formal federalism could have an impact on transitional politics?

To argue that federal structures inscribed in communist constitutions were hardly fully federal in practice does not in fact nullify the importance of this institutional structure, both because federal structure had political import, though limited, even under communism and—more importantly—because of the way federal structures are activated under conditions of regime change. In each ethnofederal state during the communist period, the fact that the center accorded official recognition to the identity of the dominant titular nationalities in each republic—reinforced by language and cultural rights—had unanticipated consequences for ethnic mobilization. Students of Soviet nationalities have frequently noted the paradox that Soviet nationality policy, while geared toward the eventual "merging" of nations, had the contrary effect of providing the tools for entrenching and consolidating national identities. The federal structures further provided separate and distinct political marketplaces for the development of at least incipient institutional interests at the republic level—what Gregory Gleason calls a "bureaucratized nationalism"[10]—and, finally, a base for the emergence of a distinctive, republic-level elite, rooted in the titular nationality of that republic.[11]

It is true that much of the political potential of the institutional arrangement remained latent in the communist period, as long as the communist parties continued to glue federal systems together. But what is important for our purposes is the impact of these institutional arrangements in the transition period—the power equation of federation activated by liberalization and democratization. It is in that context that the bargaining environment for ethnonational disputes clearly differs from that of unitary multinational states: in the course of political opening, federal structures provide republic-level political bases for

[10] See Gregory Gleason for a representative discussion of how to understand both the limitations and the significance of Soviet federalism. Gleason, *Federalism and Nationalism: The Struggle for Republican Rights in the USSR* (Boulder, Colo.: Westview Press, 1991), 2–5.

[11] On republican elites, see, for example, Rasma Karklins, *Ethnic Relations in the USSR: The Perspective from Below* (Boston: Unwin Hyman, 1989); and Carol Skalnik Leff, *National Conflict in Czechoslovakia: The Making and Remaking of a State* (Princeton: Princeton University Press, 1988).

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challenges to the existing political order and offer distinctive opportunities to key actors in the transition. The dynamic dissolution of ethnofederal states, whatever the case-specific variations, rests on the existence of these competing political arenas—the individual republics—and not merely on competing political actors. I argue that specific features of the strategic setting of ethnofederalism, initially an attempted communist solution to inherited ethnic tensions,[12] offer the key to differential manifestations of identity politics in Yugoslavia, Czechoslovakia, and the USSR during the period of liberalization and democratization. This structural arrangement does not of course cause ethnonational tension, but it certainly affects the impact of those tensions.[13]

Before turning to detailed analysis of the three ethnofederal cases, therefore, it is important to place them in proper context by pinpointing both the features that these cases share with other multinational postcommunist states undergoing democratization and liberalization, on the one hand, and, the distinctive dynamics that stem from the differences in institutional structure in unitary and ethnofederal states, on the other.

Political Openings in Multinational Postcommunist States: Common Features

Although I argue that identity politics faces different constraints and opportunities in different institutional settings, these differences are hardly absolute, and it is important first to note commonalities in the way that identity politics interacts with the process of liberalization and democratization in all multinational communist states regardless of institutional structure. Briefly put, whereas we often speak of the political openings represented by liberalization and democratization as a process of "pluralization" of opinion, organization, and competition, in multinational states such an opening may do less to *pluralize* the political process than to *segment* it by ethnonational group.[14]

Specifically, relaxing the constraints on public debate (glasnost) facilitates setting ethnonational agendas and accelerates ethnonational mobilization. Liberalization in communist states was not necessarily

[12] All three states were marked by failed attempts to build an overarching common identity atop this ethnofederal structure: "Czechoslovak," "Yugoslav" and "Soviet."

[13] Several important questions cannot be adequately addressed in the limited space of an article, notably the origins of ethnic conflict, a question that has been studied intensively elsewhere. The dynamics of federalism, of course, cannot be understood in isolation from the multinational complexity that encouraged a federal solution in the first place.

[14] Vladimir Goati so depicts the Yugoslav case in passing. See Goati, "The Challenge of Post-Communism," in Jim Seroka and Vukasin Pavlovic, eds., *The Tragedy of Yugoslavia* (New York: M. E. Sharpe, 1992), 21.

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fostered in the first instance to ventilate, much less to resolve, ethnonational grievances. This outcome can be an unintended consequence of the liberalization process, rather than its catalyst. Gorbachev, for example, had encouraged the relaxation of constraints on public discussion and informal organization as an instrumental strategy to build a constituency for economic reform. He in no way intended, and indeed has admitted that he did not anticipate, the explosive effects of glasnost on the nationalist agenda. This was clearest in the Baltics, where glasnost licensed revisiting the foundation myths of Soviet power in the region during World War II. Central Asian critics decried the genesis of a "neocolonial" cotton monoculture, and Ukrainian nationalists revisited the famine of 1933 as national genocide.

Regardless of the original intent, however, debates over national identity soon emerged in force. Revisiting so-called blank spots in the historical record, a central motif in the debates generated by liberalization, both fuels and is fueled by a nationalist impulse, the need to confront past catastrophes and thus reclaim national identity. As an indictment of the incumbent communist regime, such discussion helped to delegitimate its claim to rule by challenging communist stewardship of national interests. This, in turn, established a sense of political entitlement for redressing nationalist grievances and validated the claims for ethnonational control over policy and institutions in support of the interests previously violated by the regime.

Liberalization is important not only in shaping the climate of regime collapse but also in establishing a revised matrix of information transmission for the transition, an environment of freer discourse *segmented by linguistic community*. No longer is the media "nationalist in form, socialist in content" (which in previous practice often meant parroting official policy in local languages). Rather, the interpretive framework of the new media is national in form *and* perspective, with ethnically stratified media partially insulated by language barriers from alternative viewpoints. Susan Woodward, in discussing the Yugoslav case, describes this as "segregated intellectual universes."[15]

These multiple discourses, which continue to mark postcommunist media, generate bounded national "marketplaces of ideas" where external perspectives (from the center or rival national groups) are filtered through the lens of ethnonational concerns. This filtering process does little to create common political ground for negotiation or cross-

[15] Susan Woodward, *Balkan Tragedy: Chaos and Disintegration after the Cold War* (Washington, D.C.: Brookings Institution, 1995), 77.

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national constituency building, and some key actors did not intend that it do so. Indeed, ethnic segmentation is shaped in no small measure by nationalist entrepreneurs who utilize political openings precisely to develop a common frame of reference for a given ethnonational population and to enhance the appeal of nationalist movements. In this way, the liberalization process can contribute not only to authoritarian decay but also to a climate that is hardly liberalizing in the classical sense of tolerating alternative viewpoints.[16] Relaxing constraints on discussion thus tended to reopen and intensify nationalist debate, leaving two legacies to transition politics and to the postcommunist period: mobilization centered on an ethnonational agenda and the concomitant segmentation of public opinion.

Although the discussion has thus far centered on the liberalization of constraints on debate and organization, an additional, widely noted, form of segmentation is also visible once the democratization project is launched in electoral politics. In postcommunist Eastern Europe, wherever there are significant minorities with citizenship rights,[17] the emergent party system has mirrored that division with the segmentation of parties along ethnonational lines. In short, the ethnic segmentation of opinion publics notable as part of the liberalization process works in tandem with a segmentation of party politics during democratization.

The processes of liberalization and democratization are of course interrelated. There are two logical temporal sequences. In one, often noted by democratization theorists, liberalization precedes and may indeed generate pressure for democratization, and in the other liberalization and democratization are roughly synchronous. Both sequences appear in the political openings of communist states, and neither seems closely tied to a specific institutional design or ethnonational composition. The ethnofederal states of the Soviet Union and Yugoslavia liberalized before democratizing, as did homogenous Poland and Hungary. In ethnofederal Czechoslovakia and the multinational unitary states of Bulgaria and Romania, liberalization and democratization went forward essentially simultaneously.[18]

Despite the absence of a clear pattern, it may be suggestive to note a common strategy for shoring up legitimacy in communist multina-

[16] Because the democratization literature uses the term "liberalization" to connote an opening for freer discussion and critique of regime policy, I will continue to do so here, despite the ambiguities.

[17] Restrictions on citizenship rights in the Baltics after independence in 1991 are the exception.

[18] The absence in Czechoslovakia of a pretransition liberalization comparable to those in Yugoslavia and the Soviet Union is a legacy of the "normalization" period following the Soviet invasion of 1968. The leadership installed in 1969 to restore order remained in control until the Velvet Revolution, stringently policing the political agenda and reacting with profound malaise to the Gorbachev model,

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tional states, that of an integral nationalism that wedded communist ideology to the national identity of the dominant national grouping. Indeed, integral nationalism might be seen as a substitute for the attempt to achieve legitimacy through political (or economic) reform; in contrast to the ethnically homogeneous liberalizing regimes of Hungary and Poland, multinational Bulgaria and Romania were notable as hard-line communist states whose leaderships were able to court public support through nationalist appeals to the dominant national group.

Whatever the temporal sequence of democratization and liberalization, however, the pattern common to all postcommunist multinational states is the ethnonational cartelization of opinion and electoral competition. The consequences of this segmentation in turn differ in consonance with variations in the strategic institutional setting in unitary and federal states, a point to which we now turn.

Liberalization and Democratization in Unitary States

Unitary and federal states experienced different trajectories of change. In multinational states organized according to the unitary principle, institutional factors limited the mobilization of minority claims. Under communism, national minorities had been forced to accept a highly circumscribed and eroding ethnonational bargain in unitary states, leaving them at best with officially funded sociocultural organizations as a basis for delimited "cultural autonomy."[19]

Understandably, then, the political opening of transition in unitary multiethnic states was colored by the crystallization of minority grievances.[20] However, this is not to say that minorities were key elite

which bore a distressing resemblance to the limited agenda of the Prague Spring itself. Unlike Gorbachev, the incumbent leadership was unequivocally responsible for the earlier "era of stagnation"—its very survival in power depended on forestalling any serious political opening that would have allowed the articulation of the Slovak question and latent discontent over the communist federal model launched in 1968. See Carol Skalnik Leff, "Soviet-Czechoslovak Relations in the Gorbachev Era," in Richard F. Staar, ed., *Soviet-East European Relations* (New York: St. Martin's Press, 1991). The synchrony of liberalization and democratization had two related effects. First, the abrupt onset of transition left the counterelite without a coherent program for transformation and with only scant time and resources to formulate one, on the national question or on any other for that matter. The second and related effect of telescoping the agendas was a degree of unjustified optimism about the ease with which the Slovak question might be resolved and a consequent rude shock as divergences in perspective unfolded. A prior liberalization period would have clarified these issues and perhaps even have invited preemptive action to forestall the conditions that later produced a stalemate. At the same time, however, experience elsewhere suggests that such a period would also have led the parties to dig in their heels.

[19] At worst, they had no sanctioned institutional framework whatsoever, as was the case with the ethnic Turkish minority in Bulgaria, victims of a repressive assimilation campaign in the 1980s that stripped them of educational facilities, religious institutions, and even their Turkish names.

[20] Examples include the catalyzing effects on popular protest of the eviction of a Hungarian clergyman from his home in Romania and undermining the prestige of the Bulgarian communist regime as a result of the fiasco of the Turkish mass exodus in the summer of 1989.

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actors in brokering the terms of transition. That was essentially the province of the elites and counterelites of the dominant national grouping who remained in control; lacking an institutional base, minorities lacked seats at the bargaining table, and their interests were therefore not central to the initial agreements, formal or informal, that set the course of transition.

In unitary multiethnic states like Bulgaria and Romania, the dominant national grouping thus initially maintained control of the central government apparatus, and was positioned to draft a new postcommunist constitutional instrument and to ratify it without minority concurrence. The Bulgarian constitution, for example, bears the marks of this majoritarianism in its prohibition of parties organized along ethnic or religious lines. Robert Hayden has further noted the pervasiveness in postcommunist systems of "constitutional nationalism,"[21] in which the foundational documents of postcommunist multinational states define the "people" as those of the ethnonational majority.

In such a setting subsequent minority strategies are largely reactive, seeking openings in a primary political arena—the central government—to which their interests are often tangential or actively antagonistic. These minorities were and remained to a significant extent institutional orphans except in the electoral arena, where the removal of restrictions on party organization permitted elite mobilization of ethnonational constituencies. This mobilization effort has been spectacularly successful. A single party may monopolize the minority vote (the predominantly Turkish Movement for Rights and Freedom in Bulgaria) or several parties may divide that constituency (as in the case of Slovakia's Hungarians). But parties with a clear cross-national constituency are conspicuously absent in postcommunist Eastern Europe.

However, minority groups are numerically handicapped in parlaying this electoral success into political clout. Parties based in the ethnonationally dominant grouping have generally been hesitant to incorporate minority-based parties into formal governing coalitions, either out of ideological conviction or out of fear of electoral outbidding by ultranationalist parties rooted in their own ethnic groups. Despite their professions of loyalty, minority parties tend to be regarded as "antisystem" and thus to a significant degree "uncoalitionable"—Sartori's term for a party deemed unfit for inclusion in cabinet governance.[22]

[21] Hayden, "Constitutional Nationalism in the Formerly Yugoslav Republics," *Slavic Review* 51 (Winter 1992).

[22] Giovanni Sartori, "European Political Parties: The Case of Polarized Pluralism," in Joseph Palombara and Myron Weiner, eds., *Political Parties and Political Development* (Princeton: Princeton University Press, 1966).

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This situation tends to produce stalemate on the stateness question. Minorities face high threshold costs in pressing for territorial or institutional recognition—federation or regional autonomy—as a corrective to their circumstances, for autonomy claims register as a halfway house to overt succession, thus raising sensitive questions about loyalty to the state among nationalist parties of the dominant grouping. This standoff can impede democratic consolidation: while minorities are strategically positioned to gain representation and a voice in parliament for their grievances, they are insufficiently powerful on their own to force a hearing of these grievances without politically sensitive support from outside the state.

The Politics of Ethnofederalism

Minorities in unitary states may be more or less forced to go along for the ride, but the dynamics of regime change are quite different in ethnofederal communist states. It is here that one must redirect the emphasis in the democratization literature on politics at the center, for the center in an ethnofederal state is a highly problematic concept in periods of political opening, and we cannot assume that central elites retain the initiative.

Federalized states potentially offer alternative institutional power bases to that of the center. Federal republic units are in a sense states in embryo, with a number of the attributes of statehood, notably, territorial integrity and republican institutions of representation and decision making. The fact that such a political unit is not sovereign is of course a distinguishing factor; republican units were substantially constrained in policy-making authority by the communist center, albeit considerably less so in post-Tito Yugoslavia than elsewhere. Nonetheless, the *combination* of territoriality and institutional structure is of critical importance for the democratization period once a political opening occurs. In a unitary state even a territorially concentrated electoral base may do little more than to facilitate minority mobilization and parliamentary representation; electoral power bounded by the size of the minority grouping hardly translates into power to renegotiate the ethnic bargain.

During a political opening in ethnofederal states, by contrast, republican governments are available for capture and utilization as electorally and constitutionally legitimated platforms for pressing demands and pursuing authoritative negotiation with the center and with other republics. In the longer term the republican base facilitates the process of secession. The political dynamics of liberalization and democratization in eth-

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nofederal states thus represent a different set of constraints and opportunities for political actors than do those that obtain in unitary states.

The Breakup of Communist Federations: A Comparative Analysis

This section compares dynamics of state dissolution in Yugoslavia, Czechoslovakia, and the Soviet Union, analyzing the commonalities in strategic setting whereby the multiple arenas of political power posed challenges to central control of the transition, as well as the path-dependent variations. Ethnofederalism is not, after all, a generic blueprint, but rather is a historically specific settlement that has had distinctive consequences for the course of regime change—particularly in the source of the initiative that triggered transition. Nonetheless, the underlying uniformity is the eventual loss of the center's control over the terms of regime transition.

The Process of Political Opening: Commonalities and Variations

In examining these cases three common features of the political opening are worth emphasizing. First, the removal of constraints on public discussion, whenever it occurred, permitted not only a broader critique of existing policy on the national question but also the revisiting of previously sacrosanct state foundation myths: the Tito myth, the mythology of Czechoslovak common purpose, the myth of the willing accession of the Baltic states to the Soviet Union. The delegitimation of the existing state order served, obversely, as a legitimation of republic assertiveness in the name of national identity.

Second, the nationalist discourse found a resonant platform in the electoral politics of these transitional systems; both national dissidents with a long pedigree and new political entrepreneurs of every stripe found it an effective means of mobilizing voters. Nationalist messages not only found an electoral niche with those who already harbored national resentments but also provided a language of interpretation for society's broader economic and political ills. To the extent that communism was a centrally directed regime, the logic of national self-assertion therefore had a double-barreled thrust: to make national identity claims and to challenge centralist initiative in economics and politics more generally. Differences in economic development and market readiness across republics reinforced challenges to central economic policy. The electoral success of this mobilization effort produced ethnonationally

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stratified and distinct party subsystems in each republic, the direct analogue of ethnonational cleavages in the structure of statewide party systems in unitary states.

Third, it was not merely that the democratization process afforded a favorable environment for nationalist entrepreneurs but also that federalism accorded those entrepreneurs an institutional base. Competitive elections legitimated republic-level governments, giving them greater latitude and the standing to negotiate on behalf of electoral constituencies. The process of mobilizing nationally sensitized electoral constituencies at the republican level tended to pull even republican communist elites further away from the center and into relationships, both cooperative and antagonistic, with rival forces at the republican level in all three cases. Under the pressures of electoral competition and democratization, the Czechoslovak Communist Party first federalized and then bifurcated; central coordination by the Yugoslav League of Communists effectively died with Slovenia's walkout from the January 1990 federal party congress; and the republican communist parties of the USSR in the more nationally assertive republics positioned themselves for electoral competition by beginning to cut ties with the center and even championed gradual independence, undermining in the process the major vehicle for central control, the federal Communist Party.[23] In ethnofederal states, therefore, democratization generally lent itself to the further demarcation of boundaries between political subsystems and diminished both the incentive and the capacity to build bridges across those boundaries.

Despite these broadly comparable dynamics, there are some critical differences among the cases examined here, differences in the source of initiative for regime change and differences in the pace of regime change within states. To a significant extent such differences are path dependent, the legacies of distinctive features of communist-era federal politics. In this regard, a particularly important variable conditioning the subsequent course of transition is the differential degree of autonomy of republic elites under communism. The republican elites in the USSR were penetrated by the federal center, with the appointment of top leadership validated from Moscow within the limitations imposed by official policies of *korenizatsiia* (elite recruitment from the titular nationality) and the coherence of the republican power structure. A similar point could be made with regard to Czechoslovakia, although the

[23] See, for example, Vicki L. Hesli, "Political Institutions and Democratic Governance in Divided Societies," in Robert D. Grey, ed., *Democratic Theory and Post-Communist Change* (Upper Saddle River, N.J.: Prentice Hall, 1997), 198–201.

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practice of installing ethnically Russian officials in monitoring and control positions within the republican power structures had no counterpart in a federalized ĈSSR. The federal Communist Party in each of these cases, then, had a least some veto power over republican leadership and substantial control over basic policy.[24]

Elite recruitment in Yugoslavia was considerably more republic centered. The 1974 constitution was crafted by an aging Tito who tried to anticipate the disruptive effects of his eventual demise, for example, by creating a collective presidency composed of republican representatives whose executive rotated annually among the national groups; federal policy was dependent on consensus building among these republican envoys, each of whom had veto power. As Paula Franklin Lytle notes, this constitution "raised the expectation of consensus of separate republics to a principle of governance" and enshrined "each republic as the arena for politics."[25] In a complex institutional balancing act, it was the republican parties that designated core components of the federal leadership rather than the reverse.

These differences in the degree of republican elite latitude under communism help to explain why the locus of initiative for the political opening differed across cases; the extent to which republican elites can capitalize on the political opportunity structure of ethnofederalism was a function of their prior leeway under communism. Thus in the *Soviet Union*, where central control of policy initiative remained intact at the time of Gorbachev's accession to power, the license to open the political process necessarily emanated from that center. Gorbachev's efforts to revalidate state institutions and create a popular base for reform by way of competitive elections provided an opening to nationally assertive forces to organize electorally at the republican level, and thus to create a qualitatively different kind of pressure from below for a reordering of power relations with the center. Even as republic-level communist parties started to distance themselves from the center, challenger movements could also gain control or at least a foothold in revitalized legislatures. The result was to decouple elite recruitment from central control and to lend institutional legitimacy and the claim of an electoral mandate to republican elites committed to changing the ethnonational bargain.

[24] Tellingly, in each of these cases the dominant national groups, Russian and Czech, had no party organization of their own independent from the statewide communist party.

[25] Lytle, "Electoral Transitions in Yugoslavia," in Yossi Shain and Juan Linz, eds., *Between States: Interim Governments and Democratic Transitions* (Cambridge: Cambridge University Press, 1995), 239–40. See also Woodward (fn. 15), 21–46.

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A somewhat different dynamic unfolded in *Yugoslavia*'s more decentralized federation, where initiative from the republics launched the transition. After Tito's death, the full political logic of the power he had accorded republic-based elites reconfigured Yugoslav politics, with Milošević of Serbia breaching the barrier most dramatically with his appropriation of the nationalist credo of the Serbian historical academy to facilitate his consolidation of power. In reopening the Pandora's box of submerged national grievance, he helped to shatter both the enforced silence and the Yugoslav myth, heightening the sensitivities of neighboring republics and intensifying their own rethinking of the national question.[26] Thus, in contrast to the Soviet Union, the initiative to broaden public discussion originated among the republic-level elites and deliberately targeted stateness problems. Even before the competitive elections of 1990, republican elites in Yugoslavia were acting unilaterally to place republican law above federal law, capitalizing on the dependence of the center on republican consensus and the helplessness of the constitutional courts to enforce the existing federal bargain.[27]

The agenda of national self-assertion directly fueled democratization, as elites in Slovenia and Croatia—the locus of the most vocal demands for reordering the ethnonational constitutional bargain—unilaterally launched competitive elections at the republican level to leverage the pursuit of a more confederal constitutional bargain. The goal was to make Yugoslavia a "state of states." Democratization was less a response to popular pressure and an end in itself than an instrumental elite strategy for asserting these national demands, a means of securing an institutional base and anointing the national cause with electoral legitimacy. Subsequent utilization of referenda cemented leadership claims to the right to negotiate or secede. The Slovene and Croatian initiatives were possible without the central acquiescence that was necessary in the Soviet Union because of the superior autonomy of republican elites. Other Yugoslav republics followed suit, reactively and defensively.

A second and related distinction among the cases lies in the variable symmetry of the democratization process. In *Czechoslovakia*, where regime collapse preceded the coalescence of a clear national agenda, the concession by the ruling communists of free elections was a compre-

[26] Lenard Cohen points out that broadening the debate to encompass taboo national questions simultaneously narrowed the debate in other respects: the orthodoxy of nationalism tended to replace the orthodoxy of communism. See Cohen, *Regime Transition in a Disintegrating Yugoslavia: Law-of-Rule vs. the Rule of Law*, Carl Beck Papers, no. 908 (Pittsburgh, Pa.: University of Pittsburgh Center for Russian and East European Studies, 1992).

[27] Ibid., 9–12.

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hensive one that included a *symmetrical opening* of the political process at all levels in simultaneous statewide and republic-level elections. The national question was deferred to the parliament/constituent assembly elected in June 1990, to a time when all key players would have symmetrical democratic credentials. This pattern is, of course, very similar to that in unitary states, where there is only one primary arena of contestation.

By contrast, the Soviet Union and Yugoslavia must be seen as cases of *asymmetric democratization,* what Lytle describes in the Yugoslav case as "multiple transitions at the level of each republic"[28]—a dynamic that is hardly possible in a unitary state. In *Yugoslavia* the elections, in particular, cemented a process of differentiation of regime type within the same state: those elections produced asymmetrically democratic results, insofar as the Croatian and Slovenian elections were more fully competitive than those in Serbia, for example, where Milošević reacted defensively to the Croatian and Slovenian examples with his own controlled bid for electoral legitimacy in December 1990, building on his personal popularity to orchestrate continued socialist control. Yugoslavia following the 1990 elections was in fact a peculiar hybrid of regimes, in which some of its constituent republics pursued a much fuller political opening than others, while the center—in any case significantly derivative of the selection process at the republican level—remained electorally unreconstructed and lacked an independent power base.

In the *Soviet Union*, too, the degree of competition and the openness to alternative programs and leaderships varied considerably across republics. But as in Yugoslavia, the profoundest reconstitutions of the political elite occurred in nationally assertive republics such as Georgia and the Baltics. By contrast, democratization in central Asia was reactive and defensive in the mode of Serbia, reconfirming the power of incumbent communist elites. Thus, the Soviet democratization process too was marked by asymmetrical political openings, and the pattern of that political opening, as in Yugoslavia, corresponded directly to the pattern of national assertion against the center. And in both cases the center remained democratically unreconstructed—an additional asymmetry.[29]

Space constraints in this preliminary analysis do not permit a full elaboration of the implications of asymmetry in the political opening, clearly a basic consequence of the existence of multiple political arenas. I have already suggested that initiatives in democratizing republics pro-

[28] Lytle (fn. 25), 237.

[29] In the Soviet case this was a consequence of the limits on competition of the statewide elections of 1989 and of Gorbachev's decision to occupy the newly created Soviet presidency through parliamentary action rather than popular election.

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duced defensive regime changes and in others, pseudo democratization, or democradura. Further, the independence initiatives of some republics were clearly reactive as well; this is well recognized in Yugoslavia, where the Slovene and Croatian secession reconfigured the balance of power within rump Yugoslavia and changed the calculus of decision for republican elites in Bosnia and Macedonia.[30] In the USSR, Central Asian moves toward independence reflected elite concern for continued control in the face of liberalization in other republics. Clearly, a more systematic and intensive comparative analysis of these interactive effects would be valuable, because the resultant dynamic has not been systematically considered, and it clearly differs both from the political transitions of unitary states and from the contagion effects of simultaneous transitions in adjacent states.[31]

Moreover, the asymmetry of the political opening points backward, to the asymmetries that may have existed under the communist regime itself. It has been noted, for example, that Slovaks and Czechs experienced communist rule differently—that republican political elites operated by different rules, set different boundaries, and faced different opportunities and constraints during the normalization period following the Warsaw Pact invasion of 1968. Some scholars have even argued that it may be conceptually necessary to understand the Czech and Slovak cases as representing different forms of communist regime.[32] Such questions are not merely historical, for they shape our thinking about the legacies of authoritarian rule in the subsequent period of independent statehood.

One important consequence of asymmetric democratization evident in the Yugoslav case should at least be noted here. Republics that asymmetrically opened their political systems to fuller competition thereby gained a superior claim to the sympathy of external actors, a claim that helped to neutralize the normal preference for the status quo by adding the legitimacy of democratization to the pursuit of national self-determination. The contrast between Slovenian and Croatian competitive elections and the Milošević electoral pageant struck a profoundly reso-

[30] In Macedonia elite preferences shifted from confederation to independence with the defection of Slovenia and Croatia.

[31] Laurence Whitehead, "Three International Dimensions of Democratization," in Whitehead, ed., *The International Dimensions of Democratization: Europe and the Americas* (New York: Oxford University Press, 1996).

[32] Kitschelt, for example, suggests that we might regard Slovakia as having had a patrimonial regime, in contrast to the Czech bureaucratic authoritarian communism. Herbert Kitschelt, "Formation of Party Cleavages in Post-Communist Democracies: Theoretical Propositions," *Party Politics* 1 (October 1995).

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nant chord abroad.[33] Open electoral contestation reconfigured the external frame of reference in a stroke; state preservation became an illegitimate effort to forestall popularly elected self-determination efforts and preserve communist rule.[34] This is of critical importance, for, as Laurence Whitehead notes, consent by external actors to state boundaries is one of the basic forms of international influence.[35] The new Croatian and Slovenian leaderships clearly understood this and extracted leverage from it.

Democratization and State Dissolution: The Loss of Central Initiative

The preceding analysis of the political opening sets the context in which to analyze the dynamics of state dissolution itself. In each case, the process is centrally rooted in the leverage accorded by the existence of republic-level politics as arenas of contestation parallel to, *and increasingly overshadowing*, those of the political center. This is a crucial point to consider in the context of existing transition theory, which generally deals with cases in which the center is and remains the primary arena of political contestation during the period of regime change. It is therefore useful to consider the center's loss of political initiative, a process that again differs from case to case but also is of critical importance to state dissolution in all three cases. To the extent that the federal center lost control of disputes among the republics, the likelihood of deadlock and unilateral action rose sharply and decisively.

To say that states disintegrate because the central arena of politics has lost control of agenda setting and decision making can be a somewhat circular argument if the evidence is the dissolution of the state itself. However, one can adduce indicators of erosion of central power that predate dissolution. The three most evident concern elite recruitment and the eternal verities of death and taxes. Loss of control of elite recruitment is directly related to the democratization process itself. "Death and taxes" is shorthand for two privileged functions of the state: monopoly on the legitimate means of coercive force and revenue-

[33] Scholars have questioned whether the international community was too ready to accept bargaining failure in Yugoslavia, that is, whether there should have been greater international pressure for a negotiated dissolution. Indeed, the consequences do suggest that asymmetrical democratization alone was not a viable policy.

[34] The attentiveness of external actors also constrained attempts by the Soviet central government to bring recalcitrant republics to heel; both at home and in Eastern Europe, Gorbachev was to some extent hostage to his own calls for more responsive governance and therefore unable to send out the tanks without considerable cost to the credibility of his international agenda.

[35] Whitehead (fn. 31), 15–21.

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extraction capacity.[36] It will become evident that to a greater or lesser extent the center lost command of all of these levers in the period leading up to state dissolution.

This was dramatically evident in the *Soviet Union*, where the erosion of central control over the course of change was the hallmark of the dramatic events of 1990–91. When the Lithuanian legislature declared independence in March 1990, for example, Moscow could indeed exert economic pressure but was also forced to accord partial legitimacy to the challengers by sporadically negotiating with them. Gorbachev had to disown an attempted crackdown on Lithuania in January 1991, an attempt that failed in the face of republican control of the local levers of power and the constraints of international opinion. This certainly signaled a diminution of the center's legitimacy in the use of force. Indeed, a central government that has initiated a political opening has limited its own options, by delegitimating coercive means of control.

Scholars agree that such manifestations of weakening central control —capped by Gorbachev's subsequent willingness to pursue a new Treaty of Union in response to republican demands—catalyzed the preemptive coup attempt of 1991, launched just days before the treaty was scheduled for signture. There is further consensus that the elective leaderships of the republics—particularly Yeltsin's standing as the competitively elected president of the Russian Republic (in contrast to Gorbachev's own lack of validation by popular election)—were critical to the failure of the coup effort and in addition to the weakening of Gorbachev's position afterward.

It was in the postcoup period, therefore, that the center definitively lost the initiative over the negotiating agenda, displaced by unilateral actions of the republican leaderships. Returned to office after the collapse of the coup attempt, but not to his former power, Gorbachev faced a host of problems: republican leadership that now rejected the Union Treaty; the defection of the Baltic states; and the growing refusal of the republics to pass along the revenues that kept the state afloat. By November 1991 the center no longer commanded its own budget. A wave of sovereignty declarations incorporated claims for control of republic resources and withholding of tax collections. The Russian Republic was paymaster of the army and federal bureaucracy, while

[36] This characterization corresponds to the valuable point made by Linz and Stepan about the importance of state capacity for democratization (and indeed, for all effective government): the state needs a monopoly of the effective use of force and the "effective capacity to command, regulate and extract." Linz and Stepan (fn. 4, 1996), 11.

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Gorbachev continued to propose formulas for reconstructing a workable economic and political bargain with the republics—but to no avail.

Ultimately, the dissolution of the federation and the reconstruction of a Commonwealth of Independent States occurred by *agreement among republics* at a joint summit of Ukrainian, Belarusian, and Russian leaders in December 1991, without the participation of the federal government altogether—indeed in the face of its helpless objections. An increasingly irrelevant Gorbachev became the ex president of an ex country, without even a voice in setting the terms of dissolution. In the Soviet Union, then, the center found itself marginalized and excluded as the republics defected from the center-directed negotiation process.

In *Yugoslavia* the federal center faced erosion earlier than the Soviet Union did. Republics not only controlled the composition of the federal presidency but also increasingly exercised economic sovereignty, defying central wage and price mandates and engaging in trade wars at the republican level. This occurred even as the federal government labored desperately to recapture the central initiative necessary to manage a major economic crisis and to bring the republics to heel in support of a stabilization program mandated by the IMF. As early as 1986, in fact, federal fiscal sovereignty was emasculated by delinking the federal and republican budgets, following republican claims to resources on their own territory and the withholding of contributions to the federal budget.[37] In addition, Slovenia in particular challenged the prerogatives of the army, rejecting its right to determine troop placements and developing its own home guard.

By the period of multiple transitions in 1990, therefore, the center no longer held the cards to coordinate a policy of state maintenance. It was forced to rely on the constitutional courts for adjudication of republican sovereignty initiatives and helpless to enforce court decisions, which republics systematically flouted.[38] The center had lost control of the agenda of constitutional revision. Instead those battles were increasingly fought directly between and among the republics, within the federal presidency, and bilaterally, as the framework of federal coordination broke down. It was the refusal of Milošević of Serbia to negotiate a more confederal model as much as the resistance of the deadlocked federal government that set the stage for the Croatian and Slovenian exodus from the state in June 1991. Once again, the republics seized the

[37] Woodward (fn. 15), 69–74.
[38] See Cohen (fn. 26).

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initiative from the center in determining the course of negotiations, although in this case the outcome was a bargaining stalemate among the republics and violently contested secession.

In *Czechoslovakia,* erosion of federal control over regime change was accelerated by the activation, through democratization, of the specific decision rules governing the constitution of Czechoslovak ethnofederalism, which was, as Arend Lijphart has noted, a highly consociational one.[39] No constitutional law could pass the Federal Assembly without the votes of a 60 percent supermajority of representatives from each republic. During the communist era, party control nullified the import of this provision, which bore a formal resemblance to the consensual logic of the Yugoslav system.

In a democratized federation, however, both Czechs and Slovaks had real veto power over constitutional revision, despite the numerical majority of the Czechs. In this institutional context, the Czech and Slovak parliamentary delegations came readily to be seen as deputies of their respective republic governments, rather than autonomous deliberators acting for the state as a whole. Indeed, the erosion of central initiative occurred almost from the outset as the federal assembly ceased in effect to play the role of constituent assembly that parliaments were accorded in unitary states. Czech prime minister Pithart noted in the early stages of bargaining that "anything we agree on must be agreed upon by all three prime ministers."[40] Negotiations on state structure thus occurred within an extraparliamentary pact-making process, in which representatives of the governments of the federation itself and of its two constituent republics held periodic tripartite summits between 1990 and 1992. It was eventually agreed that no constitutional bargain would be presented for ratification by the federal assembly unless it had previously been approved by the two republican legislatures.

This process was reinforced by electoral competition. At the republican level two parallel, almost completely ethnoregionally segmented party systems lent still greater weight and voice to the republican governments, according them distinct electoral bases and autonomy of political action from the center. Thus, the combination of democratic elections and communist federalism deprived the federal government of either an electoral constituency to support its negotiational stance or—in light of the veto machinery—constitutional purchase to orchestrate a common, statewide approach to conflict resolution and to nego-

[39] Arend Lijphart, "Democratization and Constitutional Choices in Czechoslovakia, Hungary and Poland, 1989–1991," *Journal of Theoretical Politics* 4, no.2 (1992).

[40] Prague Television, November 4, 1990, in FBIS-EEU-90-216, November 7, 1990, p. 17.

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tiate the terms of a definitive settlement.[41] As in Yugoslavia, it came to be depicted, not as the embodiment of a broader collective good, but as the province of bureaucratic structures with a self-interested agenda of preserving central power. In this strategic context the federal government increasingly became the creature of the parties dominant in the republics, as multiple rounds of bargaining failed to produce consensus on the form of the future state.

Budgetary control devolved to the republics in 1990, and Slovakia experimented with the idea of a home guard. Ultimately, the federal government was sidelined altogether from the final negotiations after the 1992 elections that produced a formal agreement to dissolve the common state, negotiations conducted bilaterally between the new prime ministers of the Czech and Slovak Republics (party leaders who tellingly chose to forgo claims on the federal premiership in favor of republican leadership roles). It was Czech prime minister Klaus who, convinced that the two-year stalemate held hostage both economic transformation and the state's international standing, issued an ultimatum that the common state was dead unless it were reconstituted on his more centralist terms. But these terms were unacceptable to his Slovak counterpart, Mečiar, who voiced the general Slovak preference for a more confederal model that reserved to the center only foreign and fiscal policy. Both parties thus defected from the deadlocked negotiations on state reconstruction in favor of new negotiations on state dissolution. The complex constitutional veto structure also helped block a referendum on dissolution that in the Czechoslovak case, according to public opinion polls, might have preserved the state (but also prolonged the deadlock over its institutional form).

In all three cases, therefore, state dissolution was a function of the eroding importance of the center as the primary arena of decision and of its displacement by lower-level political arenas. In the endgame these arenas were well designed to facilitate the final defection from the existing state. Existing republic legislatures were able to perform as constituent assemblies in ratifying new constitutional instruments, and existing republican governments were able to reconstitute themselves as governments of sovereign states, facilitating the transition to independence.[42]

[41] See, for example, Frantisek Turnovec, *The Political Background of Economic Transformation in the Czech Republic,* Discussion Paper no. 25 (Prague: Center for Economic Research and Graduate Education, Charles University, November 1993).

[42] The 1992 elections in the Czech and Slovak Republics produced the legislatures and governments that retained power in the new states until the elections of 1996 and 1994, respectively. The first Russian elections were held two years after independence, in 1993, and the multitude of post-Yugoslav elections also followed six months or more after independence.

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The actors who made the key strategic decisions for independence were thereby assured of continuance in power in the immediate aftermath, a not insignificant consideration in elite calculations.

Strategic Choice in Transitional Openings

The central place of the electoral legitimacy of republican institutions in this process and the marginalization of the federal center as the arena for critical choices are crucial to the positioning of strategic actors who make the critical choices in democratizing ethnofederal states. In particular, this perspective raises provocative questions about the constraints on making key choices that might have preserved these states. Could these political marriages have been saved? One of the important dimensions of the analysis offered by Linz and Stepan is the exploration of how such elite choices framed the transitional opening, choices that facilitated state dissolution. This thoughtful analysis brings into focus the question of the capacity of the elites at the center to control the course of change.

Linz and Stepan have analyzed the sequencing of elections in Yugoslavia and the Soviet Union and concluded that the pattern was suboptimal for state preservation. Contrasting it with the relatively successful Spanish resolution of the stateness problem, they argue that holding competitive republic-level elections *prior* to competitive statewide elections undercut the chances for the emergence of parties with statewide constituencies and a stake in maintaining a common state. Here, they launched a profitable debate that has received inadequate response. The theoretical underpinning of their argument is compelling—that there is little doubt that the absence of cross-national partisan constituencies impeded effective negotiation and undercut the position of the center. Republican elections did indeed solidify the position of republican elites. In light of the previous analysis, however, there are several reasons to be circumspect about this argument.

First, is the Spanish case in fact an appropriate model? As indicated in Figure 1, it was not an ethnofederal state at the time of transition. It is true that Spain's historically incomplete integration had left a powerful legacy of regionalism. With Franco's victory, however, came a centralization of the state and the liquidation of historical autonomies and even historical regional boundaries. As in other unitary states, movements for regional recognition thus lacked an institutional foothold.[43]

[43] The Spanish case also differed in the relative weight of the substate challenge. Alternatives to the core Spanish identity were pressing only in the Catalon and Basque regions and not statewide.

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The mobilizational dynamics were therefore hardly identical in Spain and in the communist cases. And therefore the Spanish case is not a comparable one if, as I have argued, the ethnofederal character of the state and its multiple political arenas is a crucial feature of transition politics that shapes the mode of transition itself.

The second concern speaks to the question of causality, whether electoral sequencing was the key to producing a party system without statewide parties. The ethnonational segmentation of partisan politics occurred throughout Eastern Europe, even in cases where statewide elections came first and no regional elections were held at all. In addition, there is the Czechoslovak case, in which two separate party subsystems emerged in the Czech Republic and Slovakia from the first statewide elections (albeit in conjunction with republic-level elections).[44]

However, an equally strong reason to be cautious about such theorizing is the political logic that drove the process of regime change—that is, the mode of transition itself—particularly in Yugoslavia. Clearly, primary impetus to open the *Yugoslav* political process came from the republican level, precisely to create a more autonomous and legitimate republic-level politics. Elections at that level were part of the preliminary positioning in a larger contest over the stateness question. To say that statewide elections could have been held first is to posit an altogether different democratization dynamic. It would even be fair to ask whether an alternative mode of transition was possible, given the power realities in Yugoslavia. In fact, the federal government's effort to organize a statewide contest was vetoed by Slovenia; Federal prime minister Marković's belated efforts to win support for a statewide party in the republican elections also failed the electoral test. In short, the momentum and direction of the transition process depended on the existence of alternative political arenas and the incapacity of the center to take the initiative.[45]

[44] It is suggestive that in the *unitary* First Czechoslovak Republic (1918–38), the party system did indeed resemble Spain's, a hybrid of regionally based and statewide parties. The Second Czechoslovak Republic (1945–48) that provided for a Slovak legislature saw the complete segmentation of the party system and the disappearance of parties with statewide constituencies. David Olson has noted though that postcommunist laws governing elections to the Czechoslovak Federal Assembly privileged republic boundaries in two ways: no voting district boundaries crossed republic lines (an administrative as well as political choice that held in Yugoslavia and the USSR as well), and threshold requirements applied at the republican level but not at the state level. See Olson, "The Sundered State: Federalism and Parliament in Czechoslovakia," in Thomas F. Remington, ed., *Parliaments in Transition: The New Legislative Politics in the Former USSR and Eastern Europe* (Boulder, Colo.: Westview Press, 1994), 111.

[45] Historian John Lampe sees the critical point of no return as occurring much earlier, in the 1970s, when greater opening of the system might have reinforced public identification with the statewide system. See Lampe, *Yugoslavia as History: Twice There Was a Country* (Cambridge: Cambridge University Press, 1996), 294.

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In the *Soviet* case the logic of the Linz-Stepan proposition is more sustainable, for the center still retained the initiative and Gorbachev had a degree of choice in determining electoral sequence. In fact, here it is not strictly speaking the electoral sequence that is in question. As Linz and Stepan note, the statewide elections of 1989 *did* come first, but under such limits of competition as possibly to undercut their value in statewide constituency building. These elections produced a reconstituted Supreme Soviet, subject to constrained competition without parties, to act in concert with an unelected president, Gorbachev. This opening was surpassed by the more competitive republic-level elections the following year. The issue would appear to be why these first elections were so limited. Here, we see a variant on the argument offered in the Yugoslav case about modalities of transition: Soviet regime change was not a programmed, negotiated opening with a clear objective. Rather, it was an incremental series of centrally mandated improvisations that became progressively bolder as crisis mounted—hence an accelerated pace of change that significantly enlarged the scope of competition over time. Regardless of the sequence, however, there is a considerable burden of proof to bear in arguing that what liberalization and the prior federal history had wrought in augmenting the ethnonational stakes of politics would have been susceptible to effective cross-republican coalition building by the center, particularly given the difficulties of organizing incoherent, fluid, and loosely articulated organizations across the vast Soviet space—a problem that persists in Russia.[46]

A further example of the problems that ethnofederal politics pose for central control of transition is evident in an argument made by Linz, Stepan, and others in the Czechoslovak case. Rightly emphasizing the burdens placed on the Czech-Slovak negotiation process by the requirement of concurrent majorities for constitutional ratification, Linz and Stepan argue that a different strategic choice by the center elites—in this case, immediate action to relax the constitutional ratification procedures—might have contributed to the preservation of the state.[47] Given the absence of strong popular sentiment for independence, it is not unreasonable to suppose that changes in the rules of the Czechoslovak game might have influenced the outcome.[48]

[46] For an elaboration of the organizational difficulties, see Remington (fn. 44), 8–10.

[47] Linz and Stepan(fn. 4, 1996), 232.

[48] For a fuller analysis of this question, see Leff, "Inevitability, Probability, Possibility: The Disintegration of Czechoslovakia" (Conference on the Dissolution of Czechoslovakia, CERG-IE, Prague, Charles University, June 27–29, 1996). Many conference participants seemed skeptical that the federal government had the leeway to change the constitutional rules of the game; they focused instead on the short, two-year time frame mandated for the first parliament, which doubled as the constituent assembly.

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Yet here again, the context of the political opening raises questions. The underinformed optimism of the Velvet Revolution should be remembered in considering this argument. Laboring under illusions bred in the communist period by the enforced silence on the ethnonational compact, key actors appear to have underestimated the magnitude of future difficulties and hence were unprepared to take decisive action to neutralize the serious institutional obstacles that stood in the way of settlement.

More importantly, the consociational veto power that would have required revision was not a minor provision. It had been a central point of controversy—and Slovak insistence—in the deliberations that produced the original federal constitution of 1968.[49] It is unclear that an early attempt to modify the constitutional decision rules in a way that would adversely affect Slovak control of the process could have slipped through unchallenged. In fact, ethnonational battle lines were drawn in Czechoslovakia the very moment a decision relevant to the Slovak question appeared even in innocuous symbolic form—on the political agenda. The battle came in the "hyphen wars" of spring 1990, over a revised name for the Czechoslovak Socialist Republic. Slovak politicians presented with cooperative options in the central political arena had to calculate the probable electoral repercussions in the Slovak arena and consistently balked at any decision that might dilute Slovak influence. Once again, we see how the interaction of multiple political arenas frames and constrains strategic choices that might have improved the odds of state survival.

A review of these cases suggests that the dynamics of the democratization process constrained the strategic choices available to politicians of the eroding center. How multinational states opened to electoral competition was a function of ethnofederalism itself and its legacies from the communist period. The multiple political arenas, coupled with the segmentation of elites and opinion that preceded or accompanied the democratic opening, critically shaped how democratization proceeded. Thus, the logic of electoral sequencing and other hypothetical options for the elites of the federal center cannot be separated from the mode of transition itself, a dynamic driven by republican elites. In short, an analysis of strategic choice in ethnofederal states cannot be limited to the options of the center. Rather, a full conceptualization of the process of regime change must include an understanding of the

[49] See H.Gordon Skilling, *Czechoslovakia's Interrupted Revolution* (Princeton: Princeton University Press, 1977), 481–84.

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two-level game in which republic-level politics is consistently taken into account and in which the center may not be capable of maintaining decisive control over the strategies and responses of key actors.[50]

Conclusion

This article begins by emphasizing a pattern common to all the postcommunist multinational states, regardless of institutional form: the resurgence of stateness issues in tandem with the political openings of liberalization and democratization, creating an ethnonationally segmented political space. Despite these commonalities, variations in constitutional form (unitary versus federal) were critical in creating variant strategic contexts for identity politics during the transitional opening, shaped by the presence or absence of multiple institutional bases (besides the ethnonationally based political party) available for capture by elite actors. Given the existence of multiple power bases or access points within the ethnofederal state, democratization (especially asymmetrical democratization) that was fortified by the incipient stateness attributes of republics in federal systems could serve as an instrumental strategy to promote national assertion.[51]

A key factor that conditions the development of the democratization process in such cases is the erosion of central control, permitting asymmetrical, nonsynchronous political openings and ultimately marginalizing the federal government as a locus of initiative in regime change. For some political actors, democratization is an instrumental strategy, a means to press the case for greater republican autonomy or even secession. This is possible to the extent that democratization broadens the range of political discourse and provides a popular base of legitimation to elite challengers. And finally, the incipient attributes of

[50] Although this article is primarily concerned with the process by which the three communist federations reached endgame, a brief comment is necessary on the much-discussed role of violence in state dissolution. It is less the strategic context of federal structures as such that dictated differential levels of violence than the territorial ethnonational distribution of the populations of the three states and the constructed historical meaning attached to that distribution. Yugoslavia and the Soviet Union are most clearly differentiated from Czechoslovakia by their more politically volatile ethnic intermixture. Since Czechs and Slovaks were territorially concentrated within their own republican boundaries, it was possible to dissolve the state without creating significant orphaned and threatened minorities stranded on the "wrong side" of new borders. This pattern of national population distribution reinforced the institutional divisions of the state but did not burden the dissolution with custody battles over the security of stranded minorities as in Yugoslavia and the USSR, both of which suffered from substantial cross-boundary ethnic complications. This single factor is the most important in accounting for the presence or absence of violence acccompanying their breakups.

[51] In Yugoslavia, Lampe (fn. 45) sees even this national assertion as "a substitute for democratic politics"(p. 293).

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sovereignty possessed by the constituent units of federation are not only permissive of authoritative challenge in the service of national goals but also important for a realistic secession option itself. The possession of a territory, governmental structure, constitution, and electorally designated leadership that paralleled the organization of sovereign states all predated the act of dissolution, creating important continuities in personnel and structure before and after independence and thus streamlining the process of new state creation. It is too simple to view this mode of state creation as cutting along the dotted lines of republic boundaries, but the institutional logic of state dissolution would be incomplete without noting this basic strategic advantage, an advantage unavailable to minority groups in unitary multinational states.

It is important to emphasize, however, that the interaction of democratization and federalism did not dictate a uniform process of state dissolution in the three ethnofederal states. Instead it created a structure of political opportunity that operated differently in different contexts. Thus, the three federal dissolutions under consideration here are differentiated by distinctive patterns of initiative for change and of prior republic autonomy under communism, as well as by distinctive decision rules.

This analysis is obviously only a first step in the process of unraveling the interaction of national identity politics, political structure, and democratization. In the first place, a systematic consideration of transition politics in a broader range of federal states such as India or Brazil would be illuminating. The variations are complex. Minxin Pei, for example, sees a nascent federal system emerging in China, given impetus by regional economic differentiation, that might "create numerous political safety valves to reduce the stress on the center and limit its political liability." But he also notes, in line with the admonitions offered here, that such a structure "augurs well for future [uneven] regional democratic breakthroughs"—a challenge to the center.[52]

Federalism as such need not be wholly problematic for a statewide democratization project. Where the federation is not *ethnofederally* constructed, it can even facilitate a political opening that incorporates opposition elites, as was the case in the gradual Brazilian transition, where opposition parties first served apprenticeships at the regional level by capturing the governorships of key federal states. Ethnofederalism, by contrast, institutionalizes an underlying identity politics that can short-

[52] Pei, "'Creeping Democratization' in China," *Journal of Democracy* 6 (October 1995), 77–78.

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circuit such an integrative pattern, creating segmented politics instead of stepping stones.

More generally, the variant interactions between the democratization process and national identity claims are worthy of further study, particularly in the context of the forces that contribute to bargaining failures. A democratizing system and consolidated democracy operate with substantially different resources for problem solving. In the early stages of democratization the first achievement to be realized is the ability to articulate grievances and exercise veto power. But unleashing such power on a system that has not developed a pattern of elite working relationships and an institutionalized means of conflict resolution is understandably destabilizing. That is particularly so in cases of economic crisis, an important dimension of the dynamics of disintegration that could readily be incorporated into an elaborated version of this analysis.[53] Relatedly, bargaining failure is of course facilitated by the erosion of central capacity to adjudicate incompatible visions of the state.

This analysis suggests complexities in the modalities of transition in ethnofederal states that warrant further examination, to discern the ways in which questions of stateness complicate democratization. But it is also necessary to consider the simultaneous effects of regime and state change on the character of the transition process itself. Where the democratization literature has emphasized strategic choice conditioned by the *balance of power between regime and opposition actors* in determining the character of transition,[54] an accounting of the politics of transition in ethnofederal states must emphasize strategic choices by actors in multiple political arenas and the balance *of power between center and republics*. This shift in focus raises challenging questions for the consideration of transitional paths, both in terms of the discrepant modalities of transition at the republican level and in terms of the obstacles such cases pose for crafting the pacted transition necessary for the state to survive.

In the broadest terms this analysis presents an argument for greater attention to the importance of the institutional structure of the ancient regime in constructing a fuller explanation of regime transitions. The

[53] The economic interests of the key republican elites have, of course, been intensively examined in the literature, with emphasis on the differential responsiveness to the dictates of marketization and on the relevance of central coordination to the effective management of economic liberalization and stabilization measures. Here, I have focused primarily on the politics of republican defection from central economic coordination.

[54] See especially Gerardo Munck and Carol Skalnik Leff, "Modes of Transition and Democratization: The South American and East European Cases in Comparative Perspective," *Comparative Politics* 29 (April 1997).

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consequences are not always as drastic as state dissolution, but this is a larger problem that a number of scholars have begun to consider.[55] Institutional explanations, including the one offered here, are a complement to, rather than a substitute for, analyses that incorporate macrostructural variables and attention to the strategic choices of key actors. But consideration of institutional constraints and opportunities is important for defining the strategic environment in which political change occurs, and as such deserves fuller scholarly examination.

[55] See, for example, Philip Roeder, *Red Sunset: The Failure of Soviet Politics* (Princeton: Princeton University Press, 1993); and Richard Snyder and James Mahoney, "The Missing Variable: Institutions and the Study of Regime Change," *Comparative Politics* (forthcoming).

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DISTRIBUTIONAL COALITIONS AND THE POLITICS OF ECONOMIC REFORM IN LATIN AMERICA

By HECTOR E. SCHAMIS*

INTRODUCTION

IN much of the discipline of economics a liberal economic order is treated as a public good. As such, it is subject to familiar collective action problems: the completion of liberalization benefits all groups in society, but vested interests who enjoy sector-specific protections are tempted to maintain a closed economy. The former are therefore prone to free riding, while the latter have incentives to organize against an open economy. Accordingly, an influential application of this collective action approach, labeled "neoclassical political economy," has explained state intervention as the result of the deliberate action of distributional coalitions—rent seekers who profit from subsidies, tariffs, and regulations.[1] Given this state of affairs, policymakers implementing reform programs must be uncompromising with groups whose market reserves are eliminated by liberalization. As a prominent advocate of liberalization put it, in a "handful of heroes" lies the "secret of success."[2]

The metaphor is telling, yet it renders certain characteristics of the reform experience puzzling, particularly in Latin America. If the foes of an open economy possess such a capacity for collective action, what explains the pace, scope, and length (in some countries over twenty

* I thank Valerie Bunce, Eugenio Díaz-Bonilla, Anna Eliasson, Edward Gibson, Béla Greskovits, Blanca Heredia, Peter Katzenstein, Robert Kaufman, Jonathan Kirshner, María Victoria Murillo, Guillermo O'Donnell, Jonas Pontusson, Christopher Way, three anonymous reviewers at *World Politics*, and seminar participants at Cornell and Princeton Universities for comments on earlier versions of this article.

[1] For a summary of this field, see David Colander, ed., *Neoclassical Political Economy: The Analysis of Rent Seeking and DUP Activities* (Cambridge, Mass.: Ballinger, 1984); and T. N. Srinivasan, "Neoclassical Political Economy, the State, and Economic Development," *Asian Development Review* 3, no. 2 (1985).

[2] Arnold Harberger, "Secrets of Success: A Handful of Heroes," *American Economic Review* 83 (May 1993). For a similar view, see Mario Blejer and Fabrizio Coricelli, *The Making of Economic Reform in Eastern Europe: Conversations with Leading Reformers in Poland, Hungary, and the Czech Republic* (Brookfield, Vt.: E. Elgar, 1995).

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years) of the liberalization trend? How could reform-minded policymakers, on their own, launch policies to abolish the privileges of those powerful and well-organized interest groups and still survive their pressure, often under conditions of economic crisis and political instability? In other words, how did these "heroic" policymakers manage to surmount such an unfavorable collective action context?

A wealth of research has addressed these issues under the heading "the politics of economic adjustment."[3] Scholars in this research program, for the most part political scientists, have provided a rather straightforward answer to the questions above. Paradoxically, however, and despite their greater sensitivity to political factors, their explanation does not depart significantly from propositions rooted in the neoclassical paradigm. Since liberalization concentrates present costs on the beneficiaries of a closed economy and disperses (initially uncertain) benefits in the future, losers have incentives to engage in collective action but prospective winners, facing uncertainty about payoffs, remain disorganized. The pro-reform coalition is thus seen as "fragile" vis-à-vis those forces favoring import-substituting industrialization (ISI). Consequently, the reform process needs to be politically "managed"—groups favoring the status quo must be thwarted. Lacking adequate societal support, reform elites rely on enhancing autonomy, cohesiveness, and institutional capacities in order to override opposition.

Whereas economists have generally emphasized the importance of consistency and credibility for successful reform, political scientists have stressed the resolve and insulation of policy-making elites, positing these factors as the main causal variable of the process. Both therefore adopt an approach "from above." While an explicit conception of power tends to be absent from the work of economists, political scientists underline the importance of negative power, that is, the capacity of the executive to disorganize opposition. Seen in this light, the "politics of economic adjustment" reads merely as the "politics of neutralizing the losers." In fact, the lack of a conception of positive power and the neglect of proactive collective action overlooks a most crucial aspect of the reform process: how coalitions organize *in support* of liberalization. The larger politics of economic reform thus remains unexplored, and the collective action driving policy change, undertheorized.

[3] By "the politics of economic adjustment," I refer to works such as Joan Nelson, ed., *Fragile Coalitions: The Politics of Economic Adjustment* (New Brunswick, N.J.: Transaction Books, 1989); Joan Nelson, ed., *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World* (Princeton: Princeton University Press, 1990); Stephan Haggard and Robert Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992); and Stephan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995).

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This article represents an effort to close this gap by treating the politics of economic reform as the "politics of empowering the winners." The argument below does not deny the centrality of institutional capacities or the significance of the choices made by reform elites; rather, it regards capacity and choice as rooted in power relations among socioeconomic groups. An examination of the economic reform process in Latin America reveals that the institutionally strongest state—the one most capable of launching policy reforms and sustaining them over time—is the one that has become the agent of powerful economic groups. This suggests that the influence of winners and their capacity for collective action have set off that of the losers. Policy-making elites did, in fact, insulate themselves from the latter, but often by forming alliances with groups of beneficiaries well informed about the payoffs of the reforms at the very outset of, or prior to, the implementation of those programs. From these links, reformist governments drew organized political support for liberalization.

Furthermore, the Latin American experience demonstrates that the coalitions that organized in support of liberalization are most appropriately described as distributional ones; the ties policymakers built with the firms that benefited from the process account for collusion; and the behavior engaged in by interest groups in order to reap the benefits of state withdrawal can be adequately defined as rent seeking. The cases examined therefore suggest that the dominant theories of collective action and the literature on economic adjustment are in need of modification that will allow us to capture the political behavior of interest groups during marketization.

The article is organized as follows. I first discuss the neoclassical political economy approach and the literature on the politics of economic adjustment, in order to exhibit their limitations to capture the politics of reform. Second, I present a stylized set of policy combinations that fosters incentives for rent-seeking behavior and distributional coalition building, even if those policies lead to comprehensive liberalization. On this basis, I extend the conceptual framework of the neoclassical political economy to the study of market-oriented reform. Third, I evaluate the argument by examining the experiences of Chile, Mexico, and Argentina, with particular reference to trade, finance, privatization, and exchange-rate policies. These nations have implemented the most comprehensive economic reforms in the region under different political contexts—military in Chile, dominant-party in Mexico, and military and democratic in Argentina—yet exhibit noticeable similarities in the collective action patterns of the process. I thus conclude with a discus-

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sion of the need to put societal interests at the forefront of our theorization in political economy (which state autonomy arguments omit), irrespective of whether the economy is closed or open (which neoclassical perspectives overlook).

Economic Policy and Collective Action: The Intellectual Terrain

For collective action theories inspired by neoclassical economics, it is the strategic behavior of individuals and groups that accounts for political intervention in the economy. Interests have incentives to organize in small groups because organization is costly and large groups facilitate free riding. When they ascertain that the benefits they obtain will exceed the costs incurred, these groups invest resources in seeking protection. Since additional output must be shared with the rest of society, distributional coalitions penetrate decision-making arenas only in order to redirect existing wealth toward themselves, a scenario that increases state intervention in the economy. As Olson put it, "The accumulation of distributional coalitions increases the complexity of regulation [and] the role of government."[4]

Olson's is mainly a capture theory: public officials are targets of well-organized groups, the rent seekers who "demand" protection.[5] But there is also a supply side to this story.[6] To the extent that politicians maximize their utility by exchanging policies for political support, they prefer allocation through political bargaining rather than through market exchanges and thus provide rents to their constituencies. Applied to the developing world—Latin America in particular—this perspective sheds light on the persistence of ISI. In fact, protectionism generally nurtured a system of patronage in favor of domestic-oriented industrialists, organized labor, and public enterprise—the urban and often-populist coalition behind ISI.[7] In turn, the proliferation of these distributional

[4] Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982), 73; and idem, *The Logic of Collective Action* (Cambridge: Cambridge University Press, 1965).

[5] The theories of the rent-seeking society share the viewpoint. The original contribution is Anne Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (June 1974). See also Robert Tollison, "Rent Seeking: A Survey," *Kyklos* 35 (1982).

[6] For earl contributions, see Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957); and William Norhaus, "The Political Business Cycle," *Review of Economic Studies* 42 (April 1975).

[7] Significant contributions on this problem are Barry Ames, *Political Survival: Politicians and Public Policy in Latin America* (Berkeley: University of California Press, 1987); John Waterbury, *Exposed to Innumerable Delusions: Public Enterprise and State Power in Egypt, India, Mexico, and Turkey* (Cambridge: Cambridge University Press, 1993); and Barbara Geddes, *Politician's Dilemma: Building State Capacity in Latin America* (Berkeley: University of California Press, 1994).

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coalitions causes economic decline. The economy wanes because the politicization of economic policies leads to inefficient allocation and because resources are increasingly wasted in efforts to influence policymakers, namely, in directly unproductive profit-seeking (DUP) activities.[8]

It is axiomatic of this approach that government intervention and rent-seeking behavior go hand in hand; that is, virtually any state intervention creates opportunities for rent-seeking behavior. As James Buchanan put it: "Rent-seeking activity is directly related to the scope and range of government activity in the economy, to the relative size of the public sector."[9] Conversely, a government committed to the market will be less penetrable, will discourage the formation of distributional coalitions, and will thus dissipate rents. As a reviewer of this literature conveys: "The best way to limit rent seeking is to limit the government."[10]

At no point does this approach consider whether analogous distributional coalitions could organize in order to induce governments to *withdraw* from the economy in anticipation of market reserves made available by liberalization. The bulk of the scholarship on economic reform in the developing world has a similar view, although more for what it omits than for what it proposes. It has been the prevalent view to see the reforms as inevitable, the consequence of deep economic disequilibria,[11] or exogenous, the result of the pressure of foreign governments and multilateral institutions.[12] These factors together forced governments to adjust, depriving them of domestic political support, especially at the outset of the reform process when economic pain has to be distributed widely in society.[13] Thus, these reforms can originate only in the realm of insulated policy-making teams who have to design and implement policy autonomously from society because, as Haggard and Kaufman put it, "compared to those who gain from the status quo, the diffuse beneficiaries of the reforms may have substantial difficulty

[8] Jagdish Bhagwati, "Directly Unproductive, Profit-Seeking (DUP) Activities," *Journal of Political Economy* 90 (October 1982).

[9] Buchanan, "Rent Seeking and Profit Seeking," in James Buchanan, Robert Tollison, Gordon Tullock, eds., *Toward a Theory of the Rent-Seeking Society* (College Station: Texas A and M University Press, 1980), 9.

[10] David Colander, "Introduction," in Colander (fn. 1), 5.

[11] See, for example, John Williamson, "What Washington Means by Policy Reform," in Williamson, ed., *Latin American Adjustment: How Much Has Happened?* (Washington, D.C.: Institute for International Economics, 1990); and Anne Krueger, *Economic Policy Reform in Developing Countries* (Oxford and Cambridge: Blackwell, 1992).

[12] See, for instance, Barbara Stallings, "International Influence on Economic Policy: Debt, Stabilization, and Structural Reform," in Haggard and Kaufman (fn. 3, 1992); and Miles Kahler, "International Financial Institutions and the Politics of Adjustment," in Nelson (fn. 3, 1989).

[13] Thus leading to compensation programs. For a recent review of compensation literature and policies during liberalization, see Béla Greskovits, *The Political Economy of Protest and Patience: East European and Latin American Transformations Compared* (Budapest: CEU Press, 1998), chap. 8.

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organizing, particularly when the gains from the policy reform are ambiguous and uncertain."[14]

This view has permeated "the politics of economic adjustment" throughout. John Waterbury, for example, sees the state sector as "the lynchpin of a reputedly powerful coalition of beneficiaries with well-established claims to public resources," whereas "the beneficiaries of reform and privatization remain unorganized," enhancing in this setting the importance of "the coherence of technocratic policy change teams."[15] In this context, argues Joan Nelson, where "the benefits of structural changes are often delayed and accrue to individuals and groups who are not politically organized and may not even recognize their potential gains when the policy is launched . . . it is hard to build a political alliance with them."[16] With these assumptions, it would be logical to limit political analyses to the role of negative interests, that is, to those who oppose economic reforms, and to disregard how interests organize in support of them.

A Political Economy of Reform

What is missing in much of the research on economic reform is a socioeconomic logic to politics, namely, the recognition that economic agents (both losers and winners) are informed about the distributional consequences of government policy and consequently reveal their preferences to policymakers. They do this through a range of behaviors, from the purely individual and generally reactive (disinvestment) to the highly organized and proactive (political pressure).

This essay thus gives primacy to distributional considerations, even in the case of economy-wide policies like those typical of current liberalization programs. To the extent that asymmetries among interest groups are largely based on differences in market power, societal coalitions often become distributional ones, as groups seek market reserves and the concomitant rents because that is the most effective and least uncertain way to increase their market power. On this basis, I extend

[14] Haggard and Kaufman (fn. 3, 1992), 27. Even if in *The Political Economy of Democratic Transitions*, Haggard and Kaufman consider other variables to explain economic reform—regime type, party systems, corporatist frameworks, and electoral rules, among others—they insist that "the costs of reform tend to be concentrated, while benefits are diffused, producing perverse organizational incentives; losers are well organized, while prospective winners face daunting collective action problems and are not" (p. 157). Because of this, the explanatory power of insulated policy elites remains higher in the hierarchy than the other variables.

[15] Waterbury, "The Heart of the Matter? Public Enterprise and the Adjustment Process," in Haggard and Kaufman (fn. 3, 1992), 183.

[16] Nelson (fn. 3, 1990), 359.

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the conceptual apparatus of the neoclassical political economy to the study of liberalization, to point to ex ante links between interest groups and policymakers, as well as to the manner in which societal support can be organized during the implementation of reforms on the basis of expected distributional effects. Either way, whenever the logic of economic and political elites coincides, state autonomy arguments become questionable.

In this sense, following Olson, I define distributional coalitions as groups "oriented to struggles over the distribution of income and wealth rather than to the production of additional output."[17] Following Buchanan, I define rent as that part of the payment to an owner of resources above the alternative earning power of those resources, that is, as a receipt in excess of opportunity cost. Rents are profits, but the "in excess" clause indicates that those kinds of profits are realized in activities where freedom of entry is curtailed. In institutional settings where entry is blocked, profit seekers will invest resources in trying to get in, so that they can secure market reserves. As resources are increasingly utilized in politically related activities, and the allocative process is suboptimal, individual efforts to maximize value will generate social waste rather than social surplus. In this context, profit seekers become rent seekers.[18]

As discussed above, rent-seeking behavior is typical of interventionist-regulatory regimes. Based on the Latin America experience, however, this paper makes the argument that liberalization policies can generate incentives for rent-seeking behavior as well. It is not only that the supporters of the reform process organized around short-term distributional considerations or that they often colluded with the reformers in order to get their preferences translated into policy. It is also that particular combinations of liberalization policies can concentrate benefits upon a small coalition and disperse costs among a larger set of groups, leading to less than optimal aggregate results and to a setting favorable for rent appropriation. The stylized facts are as follows.

Trade liberalization accompanied by a nominal exchange-rate anchor leads to appreciation of the domestic currency, hurting exports and squeezing the tradable sector's profitability during a period of major productive restructuring. If, as part of an ongoing stabilization effort,

[17] Olson (fn. 4, 1982), 44. The end of the paragraph reads: "(or organizations that engage in what, in one valuable line of literature, is called 'rent seeking')."

[18] See Buchanan (fn. 9). In the same volume, Gordon Tullock, in "Rent Seeking as a Negative Sum Game," states that "an individual who invests in something that will not actually improve productivity or will actually lower it, but that does raise his income because it gives him some special position or monopoly power, is 'rent seeking,' and the 'rent' is the income derived" (p. 17).

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domestic interest rates are higher than international ones, inflows of capital will increase and will be used to finance a growing trade deficit. The manufacturing sector is thus simultaneously besieged on three different fronts: open trade, appreciation, and high interest rates. The reallocation of resources produced by this context will generate efficiency losses that partially offset the welfare effects of trade liberalization. The growth of private sector indebtedness and increasing incentives for arbitrage produce a massive transfer of resources from the real to the financial sector, allowing for a disproportionate expansion of the latter. And real exchange-rate overvaluation will induce firms to lobby for concessions, concentrating benefits on those who obtain special regimes.[19]

This setting is often the outcome of what students of the sequencing of reforms have referred to as a premature liberalization of capital inflows.[20] Capital account opening during trade liberalization will result in real appreciation and large current account deficits. A nominal anchor will only exacerbate these inconsistencies. And as they become unsustainable over time, they will lead agents to anticipate a future devaluation, largely by attacks on the currency through transactions in the capital account. In trying to defend the parity, the government will deplete central bank reserves until a devaluation and the ensuing inflation become inevitable.[21]

These balance-of-payments crises, however, are not distributionally neutral. Financial deregulation increases the opportunities for groups to access financial adaptation instruments (currency substitution, dollarization, capital flight) in order to reduce their taxable base and protect themselves from inflation. This practice, in turn, will further accelerate inflation and raise welfare losses, particularly among groups for whom financial adaptation is not available, forcing them to bear the heavier

[19] See Sebastian Edwards, *Real Exchange Rates, Devaluation, and Adjustment: Exchange Rate Policy in Developing Countries* (Cambridge: MIT Press, 1989). For the seminal contributions on the real exchange rate during liberalization, see Ian Little, Tibor Scitovsky, and Maurice Scott, *Industry and Trade in Some Developing Countries: A Comparative Study* (London and New York: Oxford University Press, 1970); and Béla Balassa et al., *The Structure of Protection in Developing Countries* (Baltimore: Johns Hopkins University Press, 1971).

[20] For example, Ronald McKinnon, *The Order of Economic Liberalization* (Baltimore: Johns Hopkins University Press, 1991); Sebastian Edwards, "The Order of Liberalization of the External Sector in Developing Countries," *Princeton Essays in International Finance* 156 (1984); and Dani Rodrik, "How Should Structural Adjustment Programs Be Designed," *World Development* 18 (July 1990).

[21] For the original theoretical contribution, see Paul Krugman "A Model of Balance-of-Payments Crises," *Journal of Money, Credit, and Banking* 11 (August 1979). Krugman's model has been extensively applied to Latin American currency crises. See, for example, Guillermo Calvo, "Balance of Payments Crises in a Cash-in-Advance Economy," *Journal of Money, Credit, and Banking* 19 (February 1987); and papers in *Journal of International Economics*, Symposium on Mexico, 41 (November 1996).

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burden of inflation and relax their poststabilization conditions.[22] This setting facilitates the formation of distributional coalitions, in the sense that groups with high asset mobility are more likely to tolerate higher inflation and for longer periods than groups with fixed assets.[23] If they can "wait and see" during inflation, their exit threats become more credible, increasing the costs to policymakers not willing to defer to such groups when designing stabilization and liberalization packages.

During privatization programs, in turn, the absence of effective regulatory frameworks prior to the divestiture process creates incentives for the transfer of public utilities as vertically integrated monopolies.[24] If privatization also takes place in the banking sector, it will lead to a concentration of assets and interlocking ownership that allow financial institutions to engage in unhealthy lending practices. This setting is often exacerbated when governments are under severe macroeconomic constraints; in order to maximize fiscal proceeds they tend to favor selling those firms fast and as monopolies. This context is propitious for collusion between policymakers and business groups involved in divestiture operations. It also allows newly private firms to enjoy skyrocketing rates and windfall profits, without any tangible benefits for consumers.

To the extent that these combinations of policies generate suboptimal aggregate results, profits made in this context qualify as rents. The examples above disclose central features of the Latin American experience with economic reform. Below, I offer more detail on the collective action patterns generated by economic liberalization in the region and the coalitions organized in support of those policies. The main theoretical implication is that economic liberalization may not be enough to eliminate incentives for rent-seeking behavior; indeed, it may just as well generate new ones. This suggests a criticism of the Olsonian collective action framework and the neoclassical political economy literature: to assume too hastily that the problem of distributional coalitions is invariably resolved by liberalization. Yet it also highlights that its

[22] For this intertemporal dynamic, see Raúl Labán and Federico Sturzenegger, "Distributional Conflict, Financial Adaptation, and Delayed Stabilizations," *Economics and Politics* 6 (November 1994); and idem, "Fiscal Conservatism as a Response to the Debt Crisis," *Journal of Development Economics* 45 (December 1994).

[23] This parallels Jeffry Frieden's proposition that holders of liquid assets are better shielded from unfavorable government policy. This does not mean, as Frieden suggests, that because of this they are "indifferent to policy." See Frieden, *Debt, Development, and Democracy* (Princeton: Princeton University Press, 1991).

[24] For a series of essays on this problem, see Brian Levy and Pablo Spiller, eds., *Regulations, Institutions, and Commitment: Comparative Studies of Telecommunications* (Cambridge: Cambridge University Press, 1996).

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conceptual apparatus, if extended to market reform experiments, can have even more explanatory power than expected. If this is so, state autonomy arguments, widely used to explain market-oriented reform, should be reconsidered.

The Cases

Chile

A broad coalition formed by domestic-oriented manufacturing, organized labor, and the urban middle sectors sustained ISI for most of the postwar period in Chile. This pattern lasted until the 1970s, when the policies of the Allende government (1970–73) dismantled the ISI regime and destroyed its multiclass political base. As a result, all propertied groups—landowners, industrial groups, and the middle classes—came together against the UP (Popular Unity) government and in support of the military. The heterogeneous character of this coalition was reflected in the moderate approach to stabilization and liberalization initially pursued by the Pinochet government. With political parties banned, and aside from the armed forces, the main institutional source of support for the government came, in fact, from the traditional business associations of industry, agriculture, mining, and commerce. Gradualism thus reflected the need to accommodate various sectors with different policy priorities.[25]

The core constituency of the military government, however, rested on a coalition of a handful of diversified economic conglomerates whose main firms were in export activities (mining, fishing, agriculture), manufacturing in internationally competitive industries (food processing, paper), and liquid-asset sectors (finance, insurance, real estate). Tight links between the upper echelons of these conglomerates and the armed forces had been forged prior to the coup, when big business mobilized against the Allende government and their leaders participated in the design of economic policy for the projected postcoup phase.[26] When the military took power in September 1973, important

[25] See Eduardo Silva, *The State and Capital in Chile: Business Elites, Technocrats, and Market Economics* (Boulder, Colo.: Westview Press, 1996), esp. chap. 4.

[26] Several of the contributors to the so-called "El Ladrillo," the economic policy document commissioned by the Navy and written during 1972–73 that served as the basis for the Pinochet economic model, were linked to three economic groups: Edwards, Matte, and BHC (later split in two, Cruzat-Larraín and Vial). For detailed accounts of these links by insiders, which document the company affiliations of the main actors involved, see Arturo Fontaine Aldunate, *Los Economistas y el Presidente Pinochet* (Santiago: Zig-Zag, 1988); and Arturo Fontaine Talavera, "Sobre el Pecado Original de la Transformación Capitalista Chilena," in Barry Levine, ed., *El Desafío Neoliberal* (Bogota: Editorial Norma, 1992).

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executives and directors of those firms joined the government, mostly in second-tier positions. Their rise to top cabinet and central bank posts toward the end of 1974 signaled the end of gradualism: trade and financial liberalization accelerated and the stabilization program deepened.

By 1976 the government had eliminated all nontariff barriers and announced a uniform, flat 10 percent tariff, reached in June 1979. As part of the ongoing stabilization effort, severe fiscal and monetary shocks, price deregulation, and exchange-rate devaluations were implemented. After 1978, however, the approach included the unprecedented step of liberalizing the capital account. This strategy was part of a proposed long-term structural transformation, but it was also intended to meet short-term stabilization goals. Under the monetary approach to the balance of payments, in the context of open trade and liberalized external capital flows, interest rates were expected to homogenize and domestic inflation rates to converge toward the lower international rate.[27]

These reforms eliminated controls and allowed residents to hold foreign exchange. In a context of excess liquidity in international markets, dollarization expanded further, from a traditional role of store of value to less conventional ones of unit of account and medium of exchange. Liberalization proceeded sequentially; permission to operate without interest-rate ceilings was granted first to private financiers and later to the banks, reallocating resources toward the former. The exchange rate remained generally overvalued, first tied to a preannounced crawling-peg rule and later, in 1979, fixed (which remained in place until 1982), while domestic interest rates remained significantly higher than international ones. Limits on foreign borrowing were gradually relaxed and eventually eliminated, simultaneously with the complete liberalization of capital inflows.

In addition, existing regulations did not allow the banks to take the exchange-rate risk; rather, all their loans financed with external funds had to be documented in foreign currency, with the final borrower assuming all of the exchange-rate risk. These regulations generated a highly segmented credit market, where in the end only some of the agents (largely the *financieras*) had access to credit denominated in foreign exchange. By this mechanism, large rents were captured by the financial intermediaries associated with the conglomerates who had

[27] For a review of these policies, see Nicolas Arditto Barletta, Mario Blejer, and Luis Landau, *Economic Liberalization and Stabilization Policies in Argentina, Chile, and Uruguay: Application of the Monetary Approach to the Balance of Payments* (Washington, D.C.: World Bank Symposium, 1983).

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access to foreign funds and who could lend in domestic currency.[28] Overall, this policy context had "Dutch-disease" effects, as broad incentives for arbitrage and private sector indebtedness generated a massive reorientation of resources from the real to the financial sector.

Currency appreciation, combined with simultaneous trade and financial and capital account liberalization, led to a serious deterioration in the real economy. The level of real protection in the manufacturing sector plummeted and had unequivocal distributional consequences. Exports expanded in copper and noncopper mining, fish and sea products, forestry and wood products, and agriculture. Imports, however, increased faster than exports, especially in the consumer durable, food, intermediate, and capital goods sectors, in that order. The manufacturing sector thus experienced considerable deindustrialization, particularly in traditional import-substituting activities.[29]

Liberalization also coincided with the privatization of 190 firms and 19 banks. Purchases were effected with a down payment provided by a direct loan from the state agency CORFO (Chilean Development Corporation) at a preferential interest rate and guaranteed by the very assets privatized. According to some calculations, the subsidy involved in these loans amounted to 30 percent of the net worth of the firms divested.[30] Receipts from privatization equaled $543 million, and 65 percent of those assets were purchased by eight economic conglomerates. By 1979 the four most politically involved of these conglomerates—Cruzat-Larraín, Vial, Matte, and Edwards—owned assets equivalent to 20 percent of GDP, including the largest private banks. In fact, the two largest banks (Banco de Santiago and Banco de Chile), owned by the Cruzat-Larraín and Vial groups, respectively, controlled 42 percent of credit.[31]

Interlocking ownership, concentration, and deregulation allowed these newly private banks to engage in excessive risk-taking practices: most typically lending to related companies within these groups (*auto-*

[28] See Roberto Zahler, "The Monetary and Real Effects of the Financial Opening Up of National Economies to the Exterior: The Case of Chile, 1975–78," *CEPAL Review* 10 (April 1980); and Julio Galvez and James Tybout, "Microeconomic Adjustment in Chile during 1977–81: The Importance of Being a 'Grupo,'" *World Development* 13 (August 1985).

[29] For a detailed study, see Jaime Gatica, *Deindustrialization in Chile* (Boulder, Colo.: Westview Press, 1989).

[30] See Alejandro Foxley, *Latin American Experiments in Neoconservative Economics* (Berkeley: University of California Press, 1982), 66; and data in "Así Arruinaron la CORFO," *Análisis* (January 14, 1991).

[31] For the first privatization phase, see Fernando Dahse, *El Mapa de la Extrema Riqueza* (Santiago: Aconcagua, 1979). For a general overview, see Dominique Hachette and Rolf Lüders, *La Privatización en Chile* (San Francisco: CINDE, 1992).

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préstamo) or to undercapitalized and highly indebted firms. Financial assets thus rose from 19.7 percent of GDP in 1975 to 48.1 percent in 1982, and private sector indebtedness grew from 42 percent to 70 percent of GDP between 1980 and 1982. By 1981, however, once international interest rates increased, the balance of payments deficit could not be financed any further and the nominal anchor was no longer credible. In June 1982 the government had to devalue the currency. Given the volume of dollar-denominated debt, a widespread recession followed, with unemployment reaching 26.4 percent and the economy shrinking by 14 percent for the year.

The severity of the recession prompted Pinochet to distance himself from the financial conglomerates. In August 1982, therefore, he appointed Rolf Lüders as both minister of the economy and minister of finance. Lüders had been number two in the line of command until March of that year (but was still the second largest shareholder) at the Vial group. Given the virtual collapse of the sector, the government needed somebody with detailed knowledge of the operations of the main financial concerns. On January 13, 1983, in a decision that remains controversial to this day, Lüders decreed the dissolution of three banks and placed another four in receivership.[32] Through these bailouts, the government took over 67 percent of the deposits, 57 percent of the accumulated pension funds, and 70 percent of the firms privatized between 1974 and 1981.[33]

Pressures for reversing the liberalization process intensified thereafter. The recession combined with mounting criticism altered the balance of power inside the business community. Reflecting these pressures, Pinochet appointed a rather protectionist team—led by Arturo Escobar and Modesto Collados—to navigate the crisis. The demands of the traditional sectoral associations were heeded: interest rates were lowered and tariffs increased to 35 percent.[34] In addition, the authorities began to prioritize a more adequate level of the real ex-

[32] For Lüders's assessment, see "La Razón de ser de la Intervención del 13 de Enero," *Economía y Sociedad* 35 (March 1985). It should be noted that at the time Pablo Baraona, Jorge Cauas, and José Luis Zabala—contributors to "El Ladrillo" (see fn. 26) and key policymakers of the government in the 1970s—were presidents of the Unido de Fomento, Santiago, and Concepción Banks, respectively; these group-related institutions were liquidated or placed in receivership.

[33] Fiscal resources used for the bailouts equaled 5 percent of GDP for five consecutive years. See Andrés Velasco, *Liberalization, Crisis, Intervention: The Chilean Financial System, 1975–1985, International Monetary Fund Working Paper* 88/66 (July 1988); and José P. Arellano, "De la Liberalización a la Intervención: El Mercado de Capitales en Chile, 1974–83," *Colección Estudios CIEPLAN* (December 1983).

[34] For a detailed analysis of this phase, see Guillermo Campero, *Los Gremios Empresariales en el Período, 1970–1983* (Santiago: ILET, 1984), chap. 5; and idem, "Entrepreneurs under the Military Regime," in Paul Drake and Iván Jaksic, eds., *The Struggle for Democracy in Chile, 1982–1990* (Lincoln and London: University of Nebraska Press, 1991).

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change rate, established foreign-exchange controls, and achieved an effective renegotiation of the foreign debt.[35]

Yet there was no return to ISI. As soon as the crisis was brought under control, the dominant coalition reconstituted itself around the economic groups that were able to overcome the recession. In February 1985 Hernan Büchi, a young economist with impeccable orthodox credentials, was appointed minister of finance. Tariffs were subsequently lowered to 15 percent, and the government launched the reprivatization of the banks placed under receivership during the 1982–83 financial crash and the privatization of the large SOEs in the tradable and nontradable sectors (virtually all the public utilities). Between 1985 and 1989 those privatizations became the main mechanism for the reorganization of the private sector and generated new opportunities for coalition building. If in the 1970s the direct beneficiaries of privatization were the financial conglomerates that had maneuvered their own people into top policy-making posts, the 1980s phase generated the conditions for the emergence of new economic groups, based on investing groups and former officials of the Pinochet government, who took over the natural monopolies.

Some examples illustrate the point. In electricity, presided over by former minister of labor José Piñera (and with former foreign minister Hernán Errazuriz on its board), the ENERSIS-ENDESA holding acquired property rights over 80 percent of usable water streams, including control of generation, transmission, and distributions grids. In telecommunications the long-distance telephone company ENTEL, which received exclusive satellite access, put former minister of finance Jorge Cauas on its board after privatization. In the nitrate company SOQUIMICH, the board after privatization included Julio Ponce-Leroux—Pinochet's son-in-law—as president and ex finance minister Sergio De Castro, ex budget director Juan Carlos Méndez, and ex mining minister Enrique Valenzuela, among others, as directors.[36]

The liberalization experiment in Chile thus shows a collective action pattern: key policymakers of the Pinochet government served on the

[35] Oscar Muñoz, "Crisis and Industrial Reorganization in Chile," *Journal of Interamerican Studies and World Affairs* 31 (Spring–Summer 1989).

[36] Information is drawn from the annual reports of those companies between 1985 and 1991. Note the similarities between these attributes of privatization and the East European process, where well-positioned former communists have become wealthy entrepreneurs by taking over state assets. See, for example, David Stark, "Privatization in Hungary: From Plan to Market or From Plan to Clan?" *East European Politics and Society* 4 (Fall 1990); idem, "Recombinant Property in East European Capitalism," *American Journal of Sociology* 101 (January 1996); and Jacek Tarkowski, "Endowment of Nomenklatura, or Apparatchiks Turned into Entrepreneurchiks, or from Communist Ranks to Capitalist Riches," *Innovation* 1 (1990).

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boards and in the executive offices of large economic conglomerates before and after holding cabinet and central bank positions, leading to collusion between economic power and political power. Beneficial policy contexts allowed these firms to extract rents and consolidate positions of leadership, even monopoly ones, in their respective sectors, at times in the context of negative aggregate outcomes. With Chile's return to democracy in 1990 and a center-left coalition in office ever since, the participation of policymakers of the military government on the boards of the largest firms in the country expanded, which suggests that the alliances forged during the long economic reform experiment were built to last.[37]

Mexico

In Mexico the creation of a proliberalization coalition between the government and private sector elites is better explained by historical attributes and structural changes of the economy than by the capture of policy-making posts. Compared with other ISI economies in the region, Mexico had historically had a relatively open financial system. Financial adaptation was a common practice among economic elites, especially when political events threatened their property rights, such as immediately after the revolution and during implementation of the land-reform program in the 1930s. Because of this, governments early on had to create attractive conditions at home in order to neutralize capital flight. They maintained free capital and currency markets and for the most part allowed fully convertible dollar-denominated accounts while setting high barriers of entry to limit the activities of foreign banks.

These policies sustained the "bankers' alliance," an arrangement based on a close relationship among the Finance Ministry, the Bank of Mexico, and the largest private banks.[38] The bankers became the main link between the government and the business community as a whole. An explicit trade-off was established: the government would safeguard an auspicious, yet protected, financial environment and a prudent macroeconomic regime, and business elites would refrain from intervening in politics. A moderate public deficit was financed through do-

[37] This is the general tone of a revealing article in the conservative weekly *Qué Pasa*, which provides detailed information on the participation of former policymakers on the boards of these firms, many of them privatized during their tenure in office. See "El Olimpo Empresarial," *Qué Pasa* (May 4, 1992).

[38] See Sylvia Maxfield, *Governing Capital: International Finance and Mexican Politics* (Ithaca, N.Y.: Cornell University Press, 1990).

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mestic and international financial capital markets and the private sector was willing to mobilize rapidly growing domestic savings. Governments managed to redirect investment toward the manufacturing sector and finance ISI, thereby avoiding the macroeconomic distortions common in other Latin American nations. "Stabilizing development"—a period of low inflation, exchange-rate stability, and rapid growth—followed in the 1950s and 1960s.[39]

This cooperative relationship was strained in the 1970s, however. At that time growth had exacerbated sectoral, regional, and income inequalities; private investment began to fall; and external balances deteriorated. As stabilizing development showed its own internal limits, the Echeverría administration (1970–76) responded with active macroeconomic policies. Thus, overly expansionary fiscal and monetary policies led to a typical Latin American cycle of inflation and current account deficit, which concluded in a stabilization package and a 59 percent devaluation in August 1976, ending twenty-two years of exchange-rate stability.[40]

These events would not go unnoticed by the business community. In fact, private sector elites began to express their discontent by individual as well as coordinated types of behavior. Increasing levels of capital flight exemplify the former. The latter type was best expressed by the growing politicization of business groups, as reflected by their involvement with PAN (National Action Party) and the creation of new institutions. In May 1975 the CCE (Consejo Coordinador Empresarial) was founded with the explicit goal of influencing policy-making on the verge of a change of sexenio. Conceived as an "organization of organizations," the design of its decision-making structure was disproportionately tilted in favor of liquid-asset sectors. Few firms grouped in associations of finance, insurance, and brokerage houses, plus the elite CMHN (Mexican Council of Businessmen), which includes thirty-eight conglomerates with pivotal financial interests, often outvote thousands of firms clustered under the traditional associations of industry (CONCAMIN), employers (COPARMEX), commerce (CONCANACO), and agriculture (CNA). Given this internal distribution of power, the CCE early

[39] By the main architect, which includes an analysis of the main problems of stabilizing development, see Antonio Ortiz Mena, "Desarrollo Estabilizador: Una Década de Estrategia Económica en México," *El Trimestre Económico* 146 (April–June 1970).

[40] See Carlos Bazdresch and Santiago Levi, "Populism and Economic Policy in Mexico, 1970–1982," in Rudiger Dornbusch and Sebastian Edwards, eds., *The Macroeconomics of Populism in Latin America* (Chicago: University of Chicago Press, 1991).

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on became a vibrant advocate of economic liberalism and a critic of state intervention.[41]

The López Portillo administration (1976–82) initially eased tensions thanks to the country's vast oil reserves (and positive price shocks) and the abundance of foreign credit. The government used oil as a collateral and borrowed heavily in order to increase state intervention. Highly liquid international financial markets allowed the government to increase its financial and political autonomy vis-à-vis business elites, but it had also provided private firms with more funding options and financial adaptation instruments. Private sector access to foreign credit facilitated a process of concentration and conglomeration among firms that participated in this process, as it allowed them to finance the purchase of new assets by contracting debt on behalf of firms, while simultaneously protecting their capital by sending it abroad.[42] When in the 1980s the price of oil declined and interest rates rose, the government tried to control capital flight by limiting currency movements and imposing exchange controls. After defaulting on debt service payments in August 1982, and in a paramount instance of state autonomy aimed at reasserting the power of the presidency, López Portillo nationalized the banks in September of that year.[43] As a result, criticism turned into outright confrontation, and the bankers' alliance broke down.

Unprecedented levels of capital flight and inflation forced the De la Madrid administration (1982–88) to execute a veritable policy U-turn in order to restore private sector confidence, especially among financial and large manufacturing firms. The interruption of the once-fluid communication between the PRI and business elites persuaded the government that major decisions would have to take account of private sector preferences. The first signal was, in this sense, a political one: to concentrate economic policy-making in the hands of a technocratic elite linked to public financial agencies—mostly the central bank and the ministry of budget and planning—renowned for their economic ortho-

[41] See, for example, Ricardo Tirado and Matilde Luna, "La Politización de los Empresarios Mexicanos (1970–1982)," in Julio Labastida, ed., *Grupos Económicos y Organizaciones Empresariales en México* (Mexico D. F.: Alianza/UNAM, 1986); Cristina Puga and Ricardo Tirado, "El Consejo Coordinador Empresarial: Una Radiografía," in *Cuadernos del Proyecto Organizaciones Empresariales en México* 1 (Facultad de Ciencias Políticas y Sociales-Instituto de Investigaciones Sociales de la Universidad Nacional Autónoma de México, 1992); Cristina Puga, *México: Empresarios y Poder* (Mexico D.F.: UNAM-Porrua, 1993).

[42] See Jorge Basave, *Los Grupos de Capital Financiero en México (1974–1995)* (Mexico D.F.: UNAM/EI Caballito, 1994); esp. chap. 3.

[43] For this interpretation, see Carlos Tello, central bank director at the time, *La Nacionalización de la Banca en Mexico* (Mexico D. F.: Siglo XXI, 1984).

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doxy.[44] Soon thereafter the government provided generous compensation to the expropriated bankers, returned their nonbanking assets (industrial-commercial firms, brokerage houses, and so on), allowed private investors to purchase up to 33 percent of the nationalized banking sector, and launched FICORCA—a program that bailed out firms with large foreign obligations.[45]

Bank nationalization had prompted private financiers to transfer their resources from the banks to other financial concerns, mainly brokerage houses. Forced to raise credit domestically (because foreign flows were drying up) and curb capital flight, the government issued treasury bonds (CETES) as the main instrument and granted exclusive trading rights to those brokerage houses. The trading of CETES led to a stock-exchange boom and a colossal expansion of the brokers, not merely as traders but as suppliers of larger financial services. As a result, from 1982 to 1990 the participation of brokerage houses in the overall flow of funds increased 587 percent while that of the (nationalized) banking system decreased 40 percent. In the process, not only did this sector grow but it also restructured itself. The highest rates of expansion were not experienced by the former bankers, but were instead enjoyed by relatively newer firms owned by younger and more innovative financiers who exploited the volatility of the 1980s.[46]

In the mid-1980s the collapse of the price of crude reduced the country's main source of revenue, enhancing the leverage of creditors, mobile-asset holders, and exporters. The government responded by initiating a program of trade liberalization. Licenses, quotas, and reference prices were all abolished, and tariffs, which had reached 100 percent in the early 1980s, were lowered to a maximum of 20 percent toward the end of 1987. Foreign-exchange constraints forced the government to reinforce the competitiveness of export-capable firms—provided that, depending on the import content of their products, their demand for hard currency was mitigated. Export-promotion programs were implemented along with import liberalization, targeting large firms already

[44] For a journalistic investigation, see *Sucesión Pactada: La Ingeniería Política del Salinismo* (Mexico D.F.: Plaza y Valdés, 1993). For academic references of this process, see Miguel Angel Centeno and Sylvia Maxfield, "The Marriage of Finance and Order: Changes in the Mexican Political Elite," *Journal of Latin American Studies* 24 (February 1992); and Miguel Angel Centeno, *Democracy within Reason: Technocratic Revolution in Mexico* (University Park: Penn State University Press, 1994).

[45] Ernesto Zedillo, the head of FICORCA between 1983 and 1987, was elected president in 1994.

[46] See the following chapters in Esthela Gutiérrez Garza, ed., *Testimonios de la Crisis IV: Los Saldos del Sexenio (1982–1988)* (Mexico D.F.: Siglo XXI, 1990): Cristina Puga and Constanzo de la Vega, "Modernización Capitalista y Política Empresarial"; and Alejandro Dávila Flores, "La Bolsa Mexicana de Valores: Alternativa Para el Financiamiento de la Inversión Productiva?"

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engaged in exports. These firms received significant concessions on inputs, high levels of protection for their final products, and preferential lines of credit. As a result, export growth was experienced by the automobile, glass, steel, cement, and electricity sectors.[47]

In the last quarter of 1987, with a sizable fiscal deficit and inflation reaching 160 percent, the government outlined a stabilization strategy based on deeper structural reforms and the adoption of a nominal exchange-rate anchor. This new approach, along with concerted income and price controls, gave shape to the Economic Solidarity Pact (PASE), signed in December of that year.[48] As in the southern cone nations in the 1970s, by conceiving and portraying trade opening as a price-stabilizing device, protectionism in Mexico was now linked to inflation, prompting the government to seek broader societal support for liberalization. As trade policy became a central macroeconomic concern, it was placed in the hands of public financial agencies. As a result, SECOFI, the main industrial policy agency, was ostracized, leaving import substituters without input into the policy process and unable to generate coordinated action against liberalization.[49]

Consequently, the proliberalization coalition gained momentum. Given the capacity of the bigger establishments to control key prices, the government gave primacy to direct consultation with large industrial and commercial firms, generally circumventing sectoral chambers and associations. This strategy enhanced the position of the elite CCE, making it the government's main interlocutor throughout the design and implementation phases of the PASE.[50] This alliance proved politi-

[47] For an overview, see Blanca Heredia, "Contested State: The Politics of Trade Reform in Mexico" (Ph.D. diss., Columbia University, 1995); and Jaime Ros, "La Reforma Comercial en México Durante los Años Ochenta: Sus Efectos Económicos y Dimensiones Políticas," *UN-ECLA Series Reformas de Política Pública* 4 (April 1993).

[48] For the PASE, see Robert Kaufman, Carlos Bazdresch, and Blanca Heredia, "Mexico: Radical Reform in a Dominant Party System," in Stephan Haggard and Steven Webb, eds., *Voting for Reform* (New York: World Bank and Oxford University Press, 1994); and by the pact's architect, Pedro Aspe, *El Camino Mexicano de la Transformación Económica* (Mexico D.F.: FCE, 1993).

[49] See Heredia (fn. 47).

[50] On paper the pact was a typical tripartite concertation, but the most important accords were made with big business. Agustín Legorreta, former banker and then president of the CCE, confirmed that "the pact was an agreement between the president and a very comfortable little group of three hundred people who make the economically important decisions in Mexico. We gave the government a deadline to fix its finances. It has met that goal earlier. The government has even fulfilled the verbal promises which were not part of the pact's text, such as the liquidation and dissolution of nationally significant firms like Aeroméxico and Cananea." See *Unomásuno* (May 18, 1988), 1, 14. In a follow-up to this statement the weekly *Proceso* reports increasing pressures for privatization on the part of the CCE. See, especially, "Legorreta usa toda su capacidad de presión para que se privatice la economía," *Proceso* 607 (June 20, 1988), 10–19. Reportedly, the other organized influence over policy-making came from the Monterrey-based industrial elite who had regular meetings with President De la Madrid and his economic cabinet. See María de Lourdes Melgar Palacios, "Economic Development in Monterrey: Competing Ideas and Strategies in Mexico" (Ph.D. diss., MIT, 1992).

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cally pivotal after March 1988, when the exchange rate was fixed and the increasing exposure of domestic industry intensified grievances from import substituters.[51] Only large firms could absorb the costs of simultaneous trade opening and appreciation, while at the same time expecting to extract tangible market reserves for their support, whether as subsidies to export promotion, which they were already enjoying, or as privatization, which they were demanding. Given the size and multisectoral character of those firms, the CCE was their most effective organizational tool.

During Salinas de Gortari's term (1988–94) the ties between the PRI and large private investors strengthened, bolstering the overall program of reform. A number of factors account for this. First, by mid-1988 and after a few revisions, the PASE had begun to yield positive results in the area of stabilization. Second, the strong performance of the center-left Democratic Current (which opposed economic liberalization) in the August 1988 election turned out to be a blessing in disguise for Salinas, for it convinced the business community that the safest strategy was to close ranks behind the PRI even further.[52] Third, the new president's approach toward business groups differed from De la Madrid's. De la Madrid had sought to create conditions conducive to curbing the distrust of the private sector and, at best, to restore the arrangement of stabilizing development. Salinas, instead, pursued more explicit political accords with business elites and made no secret of his alignment with the largest firms since the electoral campaign; in fact, he met with them in every state he visited.[53]

In just the second week of his term, and in a decision that reversed an entrenched postrevolutionary tradition that had excluded businessmen from public office, Salinas appointed Claudio X. Gonzalez (director of Kimberly Clark, stockbroker, and president of the CCE between 1985 and 1986) as presidential adviser for foreign investment. With that, the collaboration between policymakers and large investors took a new direction. For large private firms, access to top executive offices became frequent and transparent, at the expense of sectoral associations,

[51] Until 1988 currency devaluations were used to partially offset the effects of trade opening. With the PASE, the adoption of a fixed exchange rate led to a decline in effective protection in the manufacturing sector, from an average 34.8 percent in 1988 to 13.8 percent in 1991. Data from Fernando Sanchez Ugarte et al., *La Política Industrial ante la Apertura* (Mexico D.F.: SECOFI/FCE, 1994), 127. For exchange-rate management, see Adriaan Ten Kate, "Trade Liberalization and Economic Stabilization in Mexico: Lessons of Experience," *World Development* 20 (May 1992).

[52] For this interpretation, see Francisco Valdés Ugalde, *Autonomía y Legitimidad: los Empresarios, la Política, y el Estado en México* (Mexico D.F.: Siglo XXI/UNAM, 1997), 219–21.

[53] Carlos Elizondo, "Privatizing the PRI? Shifts in the Business-PRI Relationship" (Manuscript, CIDE, Mexico D.F., March 1994).

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which were often vilified as mere protectionist lobbies and therefore ignored.[54] This context was conducive to deeper reforms in the financial and parastatal sector: further opening of the capital account and, satisfying a long-postponed demand of the private sector, the privatization of the large SOEs and the banks. Both reforms were also essential to attract the capital needed to finance the growing trade deficit and sustain the exchange-rate-based stabilization program.

Desincorporación, the buzzword for privatization, was a key mechanism for reshaping private economic groups, strengthening traditional groups adapted to a new environment, and facilitating the emergence of new industrial-financial conglomerates. It also put the finishing touches on the new PRI–private sector alliance. The divestiture process had started under De la Madrid, but under Salinas the nationalized commercial banks and the natural monopolies were transferred to the private sector—93 percent of them to national firms—generating proceeds of U.S. $20 billion.[55] Most enterprises were sold at auctions. In order to participate, private firms had to meet technical, financial, and operational standards: for the most part, only large firms were able to do so.

Privatizations in the tradable sector generally entailed the participation of groups with previous presence in related activities, such as in the mining and agribusiness sectors. The privatization of the banks and the natural monopolies, in turn, was achieved through more innovative strategies, involving asset diversification and the formation of new economic groups. The newly private banks have benefited from promising market conditions; from legislation that specifies stricter property rights; and from a regulatory framework that included high differentials between active and passive rates in a deregulated domestic capital market, but combined with high barriers of entry to foreign banks.[56] Most assets were transferred to the booming stockbrokerage houses of the 1980s, such as in the cases of Banamex-Accival, Comermex, and Somex—respectively, the first, fourth, and fifth largest cases of privatization. In other cases privatization has given rise to further sectoral integration and concentration, as ownership is shared between stockbrokers and large exporting concerns in the manufacturing sector, such as Bancomer and

[54] See Puga (fn. 41), 181–204.

[55] See Jacques Rogozinski, head of the government "disincorporation unit," *La Privatización de Empresas Paraestatales* (Mexico D.F.: FCE, 1993).

[56] Under NAFTA, Mexican bankers managed to negotiate a gradual opening that restricts the operation of foreign banks to no more than 15 percent of the market in the first six years of the agreement (a process accelerated by the currency crisis of December 1994). See Carlos Elizondo, "The Making of a New Alliance: The Privatization of the Banks in Mexico," CIDE *Documento de Trabajo* 5 (1993).

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Serfin—the second and third operation in magnitude—purchased respectively by the Monterrey-based Visa and Vitro conglomerates.[57]

Resources for the purchase of SOEs were often obtained through financial packages that, for the purchasing firms, implied gaining control of large amounts of capital from investors in domestic and international capital markets. Since it involved players of different arenas, this method provided a decisive impetus to privatization. The most notorious of these operations took place in the telecommunications sector, when in 1992 TELMEX was purchased as a monopoly for $1.76 billion by the CARSO group in association with France Telecom and Southwestern Bell. CARSO, originally a stockbrokerage firm that diversified into other activities, pursued an agressive strategy of procurement of funds for the TELMEX operation, taking advantage of the issue of nonvoting shares on the international market. In this way, CARSO took over the company by purchasing only 20.4 percent of the stock, while simultaneously assuming control of 25 percent of the market capitalization of the Mexican stock exchange.[58]

The economic power distributed through the reform process cemented a new political relationship between the PRI and the large financial and industrial conglomerates. This alliance did not emerge spontaneously as a consequence of liberalization. On the contrary, the coalition was built piece by piece ex ante, largely on the basis of benefits distributed selectively among firms and sectors throughout the liberalization experiment. The strategic quality of this alliance became rather explicit in February 1993, when at a dinner with twenty-seven of the country's wealthiest men (most of them beneficiaries of privatization), Salinas asked each of them to donate $25 million for the 1994 electoral campaign. At this point, it became evident that this distributional coalition—a plutocracy, in the words of one observer[59]—had sustained a decade of economic policy reform.

[57] See Rebecca Hovey, "The Mexican Commercial Bank Privatizations: Market Reform, Economic Power, and the Transformation of Public and Private Interests" (Ph.D. diss., Cornell University, 1996); and by the head of the Bank Disincorporation Unit, Guillermo Ortiz Martínez, *La Reforma Financiera y la Desincorporación Bancaria* (Mexico D.F.: FCE, 1994).

[58] See Basave (fn. 42), chap. 5; and Celso Garrido, "National Private Groups in Mexico," *CEPAL Review* 53 (August 1994).

[59] Lucy Conger, "Power to the Plutocrats," *Institutional Investor* (International Edition) 20 (February 1995). For the dinner, see *Proceso* 853 (March 8, 1993). Reportedly, business groups were involved in the PRI campaign since 1988, through the so-called "Comisión de Financiamiento y Consolidación Patrimonial del PRI." See Carlos Alba Vega, "Los Empresarios y el Estado Durante el Salinismo," *Foro Internacional* 36 (January–June 1996). More on these links was revealed during the Fobaproa scandal, a $65 billion bailout of several of the privatized banks. Guillermo Ortiz Martínez, for instance, revealed the existence of political favoritism in the privatization and bailouts of the banks. See *El Financiero*, "Fórmense, vamos a repartir los bancos, dijo Salinas" (July 20, 1998).

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Argentina

In contrast to the rather cumulative trajectory exhibited by Chile and Mexico, the Argentine liberalization experience displays a series of discontinuous and often contradictory policy episodes. The first took place under the military government that came to power in March 1976 as a consequence of the deepest political crisis in the country's history. In orthodox economic circles that crisis was seen as the straightforward consequence of protracted ISI. Allegedly, protectionism in the manufacturing sector had swollen domestic industry and thus artificially strengthened unions, which radicalized their demands in the process. José Martínez de Hoz, a prominent member of the agroexport and financial elite who persuaded top military leaders of this connection, became economy minister.[60] His approach was appealing for the armed forces: liberalization would seek not just to allocate resources more efficiently but also to discipline hypermobilized organized groups, decompose the social base of populism, and restore order.[61]

Accordingly, by April 1976 the authorities had devalued the currency, liberalized prices, frozen wages, and reduced export taxes and import tariffs. In June 1977 additional measures deregulated the banking industry by easing the entry of new financial institutions, reducing reserve requirements, freeing interest rates, and redirecting public sector borrowing toward private credit markets. As a result, real interest rates became positive, leading to a considerable slowdown in 1978. Despite the recession, inflation had remained stuck at about 150 percent, prompting the government to deepen stabilization policies and accelerate the course of liberalization. The government thus launched "The 20 December 1978 Program," the cornerstone of which was an exchange-rate policy based on an active crawling peg.[62] The *tablita*, as it came to be known, consisted of a series of preannounced devaluations based on a declining rate of inflation. With the tablita came the elimination of restrictions on trade and capital accounts. Through these measures the government expected to bring the economy more in line with international prices and induce a process of reallocation according to Argentina's comparative advantages.[63]

[60] At the time Martínez de Hoz was the president of the Argentine Economic Council (CEA), an elite organization that grouped the most traditional firms in extractive, manufacturing, and financial activities, renowned for their free-market stance. His economic team included a group of orthodox economists highly reputed in financial circles.

[61] Adolfo Canitrot, "La Disciplina como Objetivo de la Política Económica: Un ensayo sobre el Programa Económico del Gobierno Argentino desde 1976," *Estudios CEDES* 2, no. 6 (1979).

[62] Carlos Rodríguez, "El Plan Argentino de Estabilización del 20 de Diciembre," *CEMA Documento de Trabajo* 5 (1979).

[63] For comparisons, see Arditto Barletta et al. (fn. 27).

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The preannounced exchange rate, set at levels below the rate of inflation so as to reduce inflationary expectations, increased real appreciation. With trade and financial liberalization, this new competitive environment put pressure on manufacturing firms, especially those in the consumer-oriented ISI sector. Domestic real interest rates higher than international ones and the exchange-rate risk offset by the tablita generated massive inflows of capital and drove firms into dollar-denominated debt, either to keep their operations afloat or to engage in arbitrage. Characteristic of exchange-rate-based stabilization programs, appreciation and the oversupply of foreign credit financed a consumption boom of imports that was instrumental in gathering support among otherwise castigated middle sectors, precisely during the most coercive phase of the military regime. As a result, private external debt increased from $4 billion in 1978 to $9 billion in 1979, leading to a threefold increase in total (private and public) debt between 1978 and 1981. Most private debt was concentrated among large firms and banks, one-third of it with ten banks and ten industrial firms.[64] Argentines thus coined the term *patria financiera* (financial motherland) to refer to the main beneficiary of the liberalization process.[65]

As in Chile, the liberalization of cross-border capital flows also opened an entirely new chapter in Argentina's political economy. Appreciation under ISI generally led to foreign-exchange crises arising out of the accumulation of trade deficits over time. From 1978 on, attacks on the currency through transactions on the capital account could deplete international reserves suddenly. This occurred after 1979, when the fast deterioration of the balance of payments highlighted the flaws of the predetermined exchange rate and led to massive outflows of capital in anticipation of a future devaluation.[66]

This inherently vulnerable macroeconomic context was further compounded by changes in the nature of the country's distributional conflict. Under ISI, income struggles among sectors had been based on the distribution of the agrarian surplus, but as commodity prices began to

[64] A. Humberto Petrei and James Tybout, "Microeconomic Adjustments in Argentina during 1976–1981: The Importance of Changing Levels of Financial Subsidies," *World Development* 13 (August 1985).

[65] In the early 1970s disputes within the Peronist movement developed between factions advocating either a *patria socialista* or a *patria peronista*. Later on, and as a consequence of the influence accumulated by labor leaders during the 1973–76 Peronist government, the public made references to the *patria sindical*. In the late 1970s and early 1980s allusions to the *patria financiera* conveyed that power was now located in the financial sector.

[66] The ensuing banking crisis prompted the government to take over fifty-nine financial institutions between March 1980 and December 1981 alone. See Luis Giorgio and Silvia Sagari, "Argentina's Financial Crises and Restructuring in the 1980s," in Andrew Sheng, ed., *Bank Restructuring: Lessons from the 1980s* (Washington, D.C.: World Bank, 1996).

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decline in the second half of the 1970s (eventually collapsing in the mid-1980s), economic groups increasingly began to direct demands toward the welfare-with-producer state. The military government responded to these pressures in three ways. First, it revitalized an existing program of sectoral incentives called "regime of industrial promotion" and combined it with tax exemptions for firms relocating in frontier provinces (due to security concerns on the part of the military). Second, it increased public investment in infrastructure, petrochemicals, and the military-industrial complex, generating opportunities for contractors and suppliers of the state who took advantage of old legislation that gave priority to nationally owned firms in public auctions. And, third, in 1981–82 the central bank enacted a program by which private debtors could transfer their foreign obligations to the state. This scheme of multiple subsidies generated larger deficits that, when monetized in the context of an open capital account with a fixed exchange rate, also contributed to wiping out foreign exchange reserves rapidly, leading to sharp devaluations and explosive cycles of skyrocketing inflation.[67]

Paradoxically, a military-sponsored liberalization experiment institutionalized Argentina's secular distributional conflict at the level of the fiscal sector. More than ever before, influence over the destination of state resources was the main way to resolve inter- and intrasector rivalries and, thus, the way alliances among economic groups were built. By the turn of the decade severe fiscal constraints limited the government's largesse in the overall distribution of subsidies, forcing firms to pursue economies of scale in rent seeking, and increased the selectivity of the process, generating incentives for favoritism, overinvoicing, and misappropriation, among other practices. Thus, by the early 1980s a few private groups had accumulated vast amounts of wealth while the economy as a whole was on the brink of collapse. In the manufacturing sector, for example, firms able to access industrial promotion and public contracts expanded significantly during the 1976–83 period, while the sector as a whole declined by about 12 percent. These beneficiaries, in turn, were virtually the same ones who were responsible for 79 percent of the total private external debt that was transferred to the state, although they represented only 5 percent of all private debtors.[68] At this

[67] There is a full treatment of this in Eugenio Díaz-Bonilla and Hector E. Schamis, "The Political Economy of Exchange Rate Policies in Argentina, 1950–1998" (Paper presented to the IDB project "The Political Economy of Exchange Rate Policies in Latin America," Washington D.C., August 1998).

[68] Data from Jorge Schvarzer, "Estrategia Industrial y Grandes Empresas: El Caso Argentino," *Desarrollo Económico* 18 (October–December 1978); idem, "Cambios en el liderazgo Industrial Argentino en el período de Martínez de Hoz," *Desarrollo Económico* 23 (October–December 1983); Mario Damill

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point a new distributional coalition was formed. Nicknamed *patria contratista* (contractor motherland) by the public, but self-identified as "the captains of industry," this group's success was the result of its capacity to access the wielders of political power and its effective control of (mostly family-owned and originally import-substituting) diversified economic conglomerates through highly centralized decision-making structures.[69]

Checked by domestic discontent and internationally isolated after the Falklands-Malvinas War, the military had to execute a quick withdrawal from office, leaving behind a truncated liberalization experiment, a high concentration of economic power, and a vacuum of political power. The democratic administration of Raúl Alfonsín (1983–89) tried to fill the political vacuum by creating a "third historical movement," namely, by absorbing the labor movement (largely Peronist) into a new permanent electoral majority.[70] An extensive "deperonization" of the working class, however, depended on prolonging the initial success of the Austral Plan, the stabilization program launched in mid-1985, as well as on the availability of resources to distribute material rewards and divide the labor leadership. Given these coalition-building priorities, the Radical government sought to retain discretionary control over the key macroeconomic variables, thus avoiding structural reforms deemed necessary to make disinflation durable.

Conflicting objectives also characterized the approach vis-à-vis business. On the one hand, the government emphasized the need to increase the overall competitiveness of the economy (via deregulation, export promotion, and so on) in order to put a definitive end to inflation. On the other hand, the capacity of the leading financial and industrial firms to set key prices of the economy compelled the authorities to bring the captains of industry more formally into the policy-making process.[71] This political alliance translated into a more orthodox macroeconomic management (reductions in the money supply, cuts in spending, and increases in interest rates) but combined with a microeconomic

and José María Fanelli, "Decisiones de Cartera y Transferencias de Riqueza en un Periodo de Inestabilidad Macroeconomica," *Documento CEDES* 12 (1988); Daniel Aspiazu, Eduardo Basualdo, and Miguel Khavisse, *El Nuevo Poder Económico en la Argentina* (Buenos Aires: Nueva América, 1987); Eduardo Basualdo and Daniel Aspiazu, *Cara y Contracara de los Grupos Económicos: Estado y Promoción Industrial en la Argentina* (Buenos Aires: Cántaro, 1991).

[69] For detailed investigations, see Pierre Ostiguy, *Los Capitanes de la Industria: Grandes Empresarios, Política y Economía en la Argentina de los Años* 80 (Buenos Aires: Legasa, 1990); and Luis Majul, *Los Dueños de la Argentina* (Buenos Aires: Sudamericana, 1992).

[70] See Luis Aznar et al., *Alfonsín: Discursos sobre el Discurso* (Buenos Aires: *EUDEBA/FUCADE*, 1986).

[71] See Ostiguy (fn. 69), 328–38; and William Smith, "Democracy, Distributional Conflict, and Macroeconomic Policymaking in Argentina, 1983–89," *Journal of InterAmerican Studies and World Affairs* 32 (Summer 1990).

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approach that maintained a rather closed trade regime and selective subsidies for firms in the manufacturing sector. The micro soon affected the macro. By 1987–88 outlays for public contracts and the regime of industrial promotion represented 2 percent of GDP and more than half of the nonfinancial fiscal deficit.[72] With a fiscal position already compromised by debt service payments and the collapse of commodity prices, high inflation resumed.

A Peronist landslide in the September 1987 congressional and gubernatorial elections further impaired the Alfonsín administration's capacity for economic management. A last attempt to recover stability was made in August 1988, through yet another package, the *Plan Primavera* (spring plan).[73] Like the Mexican PASE signed in December 1987, the program was based on a series of price agreements with the peak associations of industry (UIA) and commerce (CAC), tighter monetary and fiscal policies, and the adoption of a fixed exchange rate. Yet Argentina's political and macroeconomic environment at the time was far more precarious than Mexico's. The government's capacity to enforce compliance across society was thus remarkably lower: agricultural interests exhibited zero tolerance to currency appreciation and labor rejected wage restraint.

By the end of 1988 the credibility deficit of the spring plan was widespread. As long as the government was determined to maintain the nominal anchor and the capital account remained open, the central bank was forced to intervene in currency markets, eroding its reserves. This process accelerated as of January 1989, when the realization that the macroeconomic imbalances were unsustainable led to runs against the currency, flight from money, and other forms of financial adaptation. In early February the situation deteriorated even more dramatically. Central bank authorities suspended foreign-exchange auctions, unexpectedly ending their commitment to exchange-rate stability. The largest corporations responded to this unforeseen decision with a concerted run to the dollar that caused the virtual collapse of the price system in domestic currency. At that point, the attack on the currency had become a political gesture, to the extent that financial media described it as a "market coup."[74]

Delivered against the Alfonsín government, the "coup" was also a warning to the Peronist candidate Carlos Menem, frontrunner in the

[72] World Bank, "Argentina: Public Finance Review, from Insolvency to Growth" (February 11, 1993), report 10827-Ar.

[73] See José Luis Machinea, central bank president during most of this period, "Stabilization under Alfonsin's Government: A Frustrated Attempt," *Documento CEDES* 42 (1990).

[74] *Ambito Financiero* (December 15, 1989), 1, 2.

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May 1989 election.[75] Menem acknowledged the message: he abandoned the populist rhetoric of his campaign—"productive revolution" and massive wage increases (*salariazo*)—as soon as he was elected, and embraced an agenda defined as "popular liberalism." Menem's sudden conversion, it was said, was a "hyperrealist" and "hyperpragmatic" response to hyperinflation. He reportedly had little option but to "strike a deal" with the captains of industry.[76] In fact, when Menem was inaugurated in July, central bank reserves equaled $500 million and the monthly inflation rate was 190 percent. The new government needed to prioritize the reconstruction of the fiscal base. The distribution of rents through subsidies and public contracts could not continue, but at the time no government could afford the opposition of the large economic conglomerates, the corporate culture of which had been forged more in the political arena than in the marketplace.

Accordingly, Menem delivered an unambiguous political signal by filling the key economic policy-making positions with top executives of Bunge y Born (Argentina's oldest conglomerate and a staunch adversary of Peronism) and leaders of the Ucede political party (the earliest and most articulate advocate of economic liberalization).[77] With this support, Menem set out to centralize authority in his office, a task he deemed essential to overcome what, by all accounts, constituted the deepest economic crisis in the country's history, and to launch a reform program. On the president's initiative, Congress approved the State Reform Law in August, which made virtually all public companies eligible for privatization, and the Economic Emergency Law in September, which gave extraordinary powers to the executive to expedite the process. This legal framework set the stage for the elimination of industrial subsidies, the reduction of import restrictions (with some significant sectoral exceptions), cuts in public expenditures and employment, and increases in tax collection. In March 1991 a new anti-inflation strategy—the Convertibility Law—was approved by Congress. Still in effect in 1998, the program pegged the peso one-to-one to the dollar, determined the full convertibility of domestic currency, and transformed the monetary and exchange-rate functions of the central bank

[75] In author interviews with members of the Bank Association (ADEBA) and representatives of large industrial conglomerates held between May and August 1989, several of them admitted that by February 1989 there was a widespread feeling that "something drastic had to be done" in order to make politicians understand, "once and for all," that the business class would no longer tolerate unpredictability.

[76] Author interviews with top economists of the Justicialista Party, later officials in the economy and foreign ministries, Buenos Aires, June 1989, and Washington, D.C., December 1989.

[77] For this unprecedented alliance, see Edward Gibson, *Class and Conservative Parties: Argentina in Comparative Perspective* (Baltimore: Johns Hopkins University Press, 1997), chap. 6.

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into a quasi currency board by which the monetary base has to equal liquid international reserves.

Price and exchange-rate stability and what appeared as a commitment to rules, rather than discretion, were necessary conditions for a full-fledged privatization, especially given the increase in private sector demand for credit to finance the purchases. Since the divestiture process outlined a payment method that included foreign debt paper, purchasing consortia often included a creditor bank, an international firm operating in the area to be privatized, and a large domestic firm belonging to one of the main economic groups. The case of the telephone system is illustrative. The public monopoly was privatized as a duopoly, which included Citibank, Telefónica de España, and the local Techint group as one half, and Morgan Bank, France Telecom, and the Pérez Companc group as the other.[78]

Since the government maximized speed and fiscal proceeds, companies were generally tendered undivided and with monopoly rights. As a consequence, contractors and suppliers with specialization in certain areas exploited their information, experience, and effective access to those organizations, and took over energy, water, petroleum, railroads, and highways, for the most part in association with foreign banks and international operators. The result was a pattern of concentration in ownership and in capital markets along with horizontal diversification by which domestic firms participated in ownership of various privatized companies. This context was conducive to rapid gains in the productive efficiency of the privatized firms, reportedly the result of tariff increases, the preservation of protected markets, and regulatory flaws.[79] This occurred not just in the public utility sector, where monopolies tend to prevail due to economies of scale and high barriers of entry, but also in tradables and areas subject to competition, such as oil refineries, air transport, and international telecommunications.

In the end privatization became the very political foundation of the reform program. It allowed the government finally to secure a lasting deal with the captains of industry: the former replenished state coffers and the latter made up for lost rents. In fact, the domestic groups involved in the largest privatization operations—Macri, Techint, Bridas,

[78] See Claudia Herrera, "The Privatization of the Argentine Telephone System," *CEPAL Review* 47 (August 1992).

[79] See Pablo Gerchunoff and Guillermo Cánovas, "Privatización en un Contexto de Emergencia Económica," *Desarrollo Económico* 34 (January–March 1995); and idem, "Privatization: The Argentine Experience," in William Glade, ed., *Bigger Economies, Smaller Governments* (Boulder, Colo.: Westview Press, 1996).

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Pérez Companc, Astra, Soldati, Roggio[80]—were also the main beneficiaries of public contracts and the regime of industrial promotion in the 1970s and 1980s, and among the largest private debtors who transferred their foreign obligations to the state through the subsidy implemented in 1981–82. In the 1990s, therefore, the captains of industry consolidated their economic leadership and, by constituting themselves in the dominant distributional coalition, reaffirmed a political centrality that no government could afford to ignore.

Conclusion

This paper has discussed the collective action and coalition building associated with economic liberalization. The flaws of the approaches reviewed above account for their incomplete reading of the behavior of interest groups during the reform process and, crucial in political economy, for the type of state theory they construct on the basis of that reading. The neoclassical political economy approach links the strategic action of groups to government policy only under conditions of state intervention. Scholars in this research program present a theory of collective action that is mostly a capture theory, though one that goes only in the direction of government intervention. The reverse situation, however, remains untheorized, namely, that interests organize and capture decision-making arenas to induce governments to withdraw from the economy. Economic liberalization is thus explained by the action of enlightened policymakers—Harberger's heroes—but what exactly allows them to prevail over well-organized forces seeking protectionism is not specified. In this sense, the neoclassical political economy approach can furnish only a theory of the "interventionist" state.

The literature on the politics of economic adjustment, in turn, has mirrored the premises of the neoclassical paradigm. As noted above, Haggard and Kaufman and several of their collaborators hold that economic liberalization diffuses benefits and concentrates costs. Potential winners are said to be uncertain about the payoffs of the reforms and are therefore pictured as passive and disorganized. Losers, by contrast, are considered to have stronger incentives to engage in collective action against those policies. On the basis of these assumptions, only cohesive and insulated policy-making elites can deliver reform packages success-

[80] Data from INDEC, *Anuario Estadístico de la República Argentina* (Buenos Aires: Ministerio de Economía y Obras y Servicios Públicos, 1997), 480–98.

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fully. This approach, then, mainly advances a theory of the "autonomous" state.

Despite different points of departure, the approaches of economists and political scientists reviewed in this paper converge in their understanding of the economic policy-making process. Yet neither the proposition that only interventionist policy contexts generate incentives for groups to engage in rent-seeking behavior and distributional coalition building nor the claim that liberalization flows from insulated policy teams because losers are better organized than winners conforms to the empirical materials discussed above. Theoretically, these claims are based on a profoundly negative view of politics characteristic of neoclassical economics (that is why whenever societal groups engage in political organization, protectionism is invariably expected to follow) and on what appears to be an increasingly prevalent tendency in the field of political economy: to view political institutions—particularly the state—as autonomous structures with their own distinctive configurations, ideas, and interests, and take them as the independent variable that explains various socioeconomic outcomes, government policy among them.

As shown from the Latin American reform experience, free trade combined with real exchange-rate overvaluation generates important allocative inefficiencies: manufacturing firms are driven into debt, producing massive transfers of resources from the real to the financial sector, and into lobbying for special concessions, thereby offsetting the welfare gains of liberalization. Capital account liberalization together with an exchange-rate-based stabilization program magnify the macroeconomic vulnerability. This also increases the availability of financial adaptation instruments and allows those who can access them to protect themselves from inflation. Over time, however, this practice will raise inflation further, concentrating the welfare losses on groups unable to access financial adaptation. Mobile asset holders will thus try to secure a policy context that facilitates their access to financial adaptation. Public utilities privatized as vertically integrated monopolies consolidate disproportionate economic power in a few private firms, setting incentives for collusion between those firms and policymakers without tangible benefits for consumers. Firms with political clout use it to take over the assets of these SOEs.

This collective action setting highlights the need to rethink the propositions of the state-centered approach in political economy.[81]

[81] The landmark contributions are Peter Katzenstein, ed., *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978) (yet more open to the role of societal groups); Peter Evans, Dietrich

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Scholars persuaded by this approach, mostly political scientists, have sought to reject views of the state as epiphenomenal of societal forces. Far too often, however, state-centered explanations have gone much beyond a welcome *analytical* distinction between the state and the economy—necessary to underscore the specificity of the political—to reify instead the state as an apparatus unrelated to the economic domain, almost as a separate object of study. Not only has this intellectual operation limited the explanatory power of this type of political economy but it has also obscured the very understanding of the state and other political institutions. It misses the point that, to the extent that the enforcing institutions of a society affect its economic performance as well as the distribution of wealth, they become the battlegrounds for interest-group politics. Because of this, institutions are generally created not by actors pursuing optimal choices but by actors seeking to gain strategic advantage in ways that secure distributional outcomes.[82] If we approach the study of those institutions as autonomous domains, we can treat them only as independent variables. If institutions are delinked (insulated) from the preferences and strategies of societal groups, crucial factors that account for the process of institutional creation and change are missed.

The causal primacy assigned by the approaches reviewed above to the policy consistency, autonomy, and institutional capacities of the reformers displays an unwarranted state-centered emphasis on the liberalization process at the expense of the structural power of the beneficiaries of economic reform. By contrast, this paper has sought to bring interests to the forefront of political economy and thereby highlight the impact of group preferences on government policy and institutions. Having developed a more accurate picture of the behavior of these groups, we can link the preferences and coalition-building strategies of societal actors to policy choices and to the institutional forms adopted by economic reform experiments. As shown above, in market economies asymmetries among interest groups are based largely on differences in market power. Interest groups seek market reserves and the

Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985); and Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992). For a criticism, see Adam Przeworski, *The State and the Economy under Capitalism* (Chur, Switzerland: Harwood Academic Publishers, 1990); and Jonas Pontusson, "From Comparative Public Policy to Political Economy: Putting Political Institutions in Their Place, and Taking Interests Seriously," *Comparative Political Studies* 28 (April 1995).

[82] For discussions along these lines, see Jack Knight, *Institutions and Social Conflict* (Cambridge: Cambridge University Press, 1992), esp. chap. 2; and George Tsebelis, *Nested Games* (Berkeley: University of California Press, 1990), esp. chap. 4.

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accompanying rents because that is the most effective and least uncertain way to increase their market power. In closed economies (such as those under ISI) market reserves take the form of tariffs and government regulations; the rent-seeking literature has highlighted the structural incentives that explain the political activities behind this process. Through identical political activities, however, interest groups can secure market reserves in liberalizing contexts as well.

In fact, the evidence presented in this paper demonstrates that collusion between political and economic power and the formation of small distributional coalitions have been the driving forces behind the policy reform process in Latin America. Frequently, such a collusion was made explicit by revolving-door relationships between corporate and executive posts, as in Chile during the expansion of the *grupos*, or by direct channels of access enjoyed by a reduced number of firms, as revealed by the leaders of the Mexican CCE. Uniformly, these relationships translated into the preservation of market reserves, as most clearly expressed by the Argentine captains of industry, first state contractors and later privatizers. On the basis of these findings, this essay has suggested extending the insights of the theories of the rent-seeking society to the study of market-oriented reform and placing state autonomy arguments under scrutiny. Only so, with such a detailed examination of the political behavior of interest groups during liberalization can we capture the politics of economic reform.

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Review Articles

INTERNATIONAL LIBERALISM AND DISTRIBUTIVE JUSTICE

A Survey of Recent Thought

By CHARLES R. BEITZ*

IN recent years there has been a renewal of interest in the liberal tradition of international thought. It arises from several sources—most prominently, from doubt about the adequacy of political realism in explaining international collaboration and from examination of the neo-Kantian idea of a "democratic peace." And it manifests itself in the formulation of general analytical paradigms for international relations that are seen as alternatives to other prevailing constructions.[1]

The various forms of analytical liberalism share an emphasis on the domestic structure and political culture of states as the primary determinants of foreign policy. These paradigms are perhaps best seen as attempts to generalize the second-image theories of the causes of war distinguished by Kenneth Waltz many years ago.[2] However, unlike the earlier liberal theorists considered by Waltz, contemporary writers have tended to limit their attention to the analysis and explanation of international behavior; they have had relatively little to say about how, if at all, the principles and ideals of the liberal tradition might guide international practice.[3]

*An earlier version was given at a conference cosponsored by the Humphrey Institute of the University of Minnesota and the Carnegie Council on Ethics and International Affairs. I am grateful to the participants, particularly David Mapel and Ethan Kapstein, for comments, and to Henry Shue for helpful suggestions on a subsequent draft.

[1] The literatures are vast and for the most part well known. For the dispute about realism, see David A. Baldwin, ed., *Neorealism and Neoliberalism: The Contemporary Debate* (New York: Columbia University Press, 1993). On the democratic peace, see Michael W. Doyle's important two-part article, "Kant, Liberal Legacies, and Foreign Affairs," pts. 1 and 2, *Philosophy and Public Affairs* 12 (Sumer and Fall 1983). For a recent effort to formulate a liberal analytical perspective on international affairs, see Andrew Moravcsik, "Taking Preferences Seriously: A Liberal Theory of International Politics," *International Organization* 51 (Autumn 1997).

[2] Kenneth N. Waltz, *Man, the State, and War: A Theoretical Analysis* (New York: Columbia University Press, 1959); the discussion of liberal theories appears in chap. 4.

[3] Moravcsik (fn. 1), for example, is clear about this (p. 548). This is not to say that the analytical literature lacks normative motivation; see, e.g., Robert O. Keohane, *After Hegemony: Cooperation and Dis-*

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This is not a criticism. The analytical and the normative, although related, are different domains, and it is a virtue, not a shortcoming, to observe the distinction. The point is that the articulation of a defensible form of liberalism that can guide international conduct (henceforth simply "international liberalism") is a separate task, one with its own history and literature.

Any defensible form of international liberalism should have at least four elements: (1) a conception of the moral foundations of principles of international conduct; (2) an account of international *political* justice, including the prerogatives of the state, the authority of international law and institutions, and the minimum requirements of fair participation in international governance; and (3) an account of *distributive* justice, including the distributive responsibilities of states and the extent, if any, to which the institutional structure of international order should seek to influence the global distribution of resources and wealth. Together these elements should, in turn, form the basis of (4) a doctrine of human rights, understood as universal minimum standards of legitimacy for social institutions.

In this essay I concentrate on the third of these elements—that of international distributive justice—and its consequences for the fourth—the doctrine of human rights. The main goal is to describe three different approaches to international distributive justice represented in the recent literature of political philosophy. Each draws on a different underlying idea characteristic of the liberal tradition. The essay concludes with reflections about what can be learned about international distributive justice from a critical review of these approaches.

The Subject of International Distributive Justice

Why do we need a conception of international distributive justice? The answer is that we need guidance in making a range of choices whose outcomes bear on the well-being of individuals located in societies other than our own. These include, for example, choices about individual conduct (such as whether to donate to Oxfam); the policies of our own government (concerning, for example, foreign aid or immigration);

cord in the World Political Economy (Princeton: Princeton University Press, 1984), chap. 11; and idem, "International Liberalism Reconsidered," in John Dunn, ed., *The Economic Limits to Modern Politics* (Cambridge: Cambridge University Press, 1990). Michael Doyle's recent book examines liberal as well as realist and Marxist perspectives on an array of normative questions; see Doyle, *Ways of War and Peace* (New York: W. W. Norton, 1997).

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the policies of international institutions and regimes (rules of international trade, international monetary policy, environmental controls, labor standards, conditions on multilateral aid and structural assistance); the constitutions of international institutions, as distinct from their policies; and the policies of nongovernmental organizations (the Ford Foundation, the International Red Cross). Recognizing the potential consequences of these choices, it is natural to wonder what moral considerations should guide our judgment.

As these illustrations suggest, it would be a mistake to think that distributive justice pertains only to policies involving direct transfers of income. This is no more true in the international realm than within the state. In the latter context, as John Rawls has argued, distributive justice is concerned with the "basic structure" of society: the way in which the major social institutions—for example, markets in capital and labor, bequeathable rights to private property—determine the division of advantages in society.[4] Reasoning analogously, we might say that a theory of international distributive justice would concern the basic structure of international society, that is, the institutions that determine the international distribution of advantages. International transfers (for example, foreign aid programs) certainly have some influence, but by any measure this is insignificant in comparison with other forces that are potentially open to political manipulation, such as private capital flows, the rules of the trade regime, or the system of internationally recognized property rights. To be consistent with the domestic analogy, all of this should be considered part of the international "basic structure" to which conceptions of international distributive justice apply.

Some have argued that one must choose between views of international justice that apply to states and those that apply to individual persons.[5] But this is a temptation to be resisted. It is not inconsistent to hold that the well-being of individuals is what finally matters from a moral point of view but that principles of justice impose obligations and entitlements on states and other institutional actors as well. Indeed, it might be that collective entities have the *primary* duties to satisfy rights possessed by individuals and that individuals have duties only (or mainly) in their capacities as members of societies. There is no conceptual reason to have to choose between a theory whose only units are individuals and one whose only units are states.

[4] Rawls, *A Theory of Justice* (Cambridge: Harvard University Press, 1971), 7.

[5] See, for example, Bull's distinction between "international," "individual," and "cosmopolitan" conceptions of international justice in *The Anarchical Society*, 2d ed. (London: Macmillan, 1995), 81.

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International Distributive Justice: Three Perspectives

Fifteen years ago it could still be said that international distributive justice was only a marginal concern in political theory. Today the subject is a significant focus of theoretical attention. For expository purposes (and without claiming to be comprehensive), we can distinguish in the recent literature three views or, more accurately, three families of views about international distributive justice, all of which have sources in the liberal tradition. They differ according to the grounds they recognize for concern about the distributive characteristics of the basic structure of international society (and, by implication, the grounds they exclude from consideration). For convenience, I shall call the alternatives "social liberalism," "laissez-faire liberalism," and "cosmopolitan liberalism," with the caveat that these names are meant to serve as labels and not to carry theoretical freight.

Social Liberalism

Social liberalism is motivated by a two-level conception of international society in which there is a division of moral labor between the domestic and international levels: state-level societies have the primary responsibility for the well-being of their people, while the international community serves mainly to establish and maintain background conditions in which just domestic societies can develop and flourish. The agents of international justice are states or societies, not individual persons (on the one hand) or international or transnational actors (on the other).

David Miller, John Rawls, and John Vincent, among others, have set forth views of this kind.[6] Although these views differ in important respects, they have two central elements in common. First, they hold that all societies should respect basic human rights, conceived as universal minimum standards for domestic social institutions that apply across variations in cultures and conceptions of social justice. (There is some disagreement, however, about which rights count as "human" rights.) Second, they contend that the primary responsibility for satisfying these rights rests with a society's own government and people. Outsiders have a responsibility to contribute only under special circum-

[6] Miller, *On Nationality* (Oxford: Clarendon Press, 1995); Rawls, "The Law of Peoples," in Stephen Shute and Susan Hurley, eds., *On Human Rights: The Oxford Amnesty Lectures 1993* (New York: Basic Books, 1993); R. J. Vincent, *Human Rights and International Relations* (Cambridge: Cambridge University Press, 1986). Although she refers to international distributive justice only in passing, Yael Tamir's comments in *Liberal Nationalism* (Princeton: Princeton University Press, 1993) are interesting for the particularistic foundations adduced for the view; see pp. 117–21, 160–63.

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stances. As Miller puts it, for example, that occurs when there are extreme levels of deprivation which the local government is in no position to relieve and when foreign governments or other international actors can do so effectively without a morally significant sacrifice.[7]

I concentrate here on the form of social liberalism set forth by John Rawls in his essay, "The Law of Peoples," because this is the most carefully worked-out example of social liberalism to be found.[8] It represents a fascinating, original, and possibly surprising elaboration of the brief remarks on international justice in Rawls's earlier work;[9] and it illustrates especially clearly the conviction, common to social liberalism, that the state has a special significance that cannot be accounted for entirely in instrumental terms.[10] I should add, however, that Rawls's view differs in its foundations from the versions of social liberalism defended by writers such as David Miller and Michael Walzer, who characterize their theories as "particularist" or "pluralist." Much might be said about the philosophical issues involved in these characterizations—so much that it seems better to leave them for another occasion.

THE LAW OF PEOPLES SUMMARIZED

Rawls's view is more complicated than the modest length of his essay might suggest, and it defies simple summary. The main points for present purposes concern the character and derivation of the law of peoples and the sense in which it respects the pluralism of cultures; its content, particularly the provisions bearing on the distributive responsibilities of states; and the nature and content of human rights.

The character and derivation of the law of peoples. A liberal society requires principles to guide the conduct of its foreign policy, including its relations with other states, its contributions to the making and interpretation of international law, and its views about the structure and policies of international organizations. The law of peoples supplies such principles, which both orient and limit a liberal society's conception of its national interest. The law of peoples is to the foreign affairs of such a society what a conception of social justice is to its domestic life.

[7] Miller (fn. 6), 75–77, 107–8. All forms of social liberalism must specify some such threshold, but views may differ about its character and severity. For example, compare the passages cited from Miller with Vincent (fn. 6), 143–50; and Rawls (fn. 6), 76–77.

[8] Rawls (fn. 6).

[9] See particularly Rawls (fn. 4), sec. 58.

[10] I leave aside many other parts of "The Law of Peoples." I note also that Rawls has set forth the theory in greater detail in a monograph also entitled *The Law of Peoples* (forthcoming). It is a rich and stimulating work that will repay close study. Regrettably, I must limit myself here to the already published paper.

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Rawls treats the derivation of the law of peoples as an extension of the social contract doctrine employed in earlier works to determine principles of justice for domestic society, with "peoples" now taking the place of persons. Principles for the law of peoples are the outcome of a hypothetical agreement among representatives of various peoples meeting in an "original position."

The central problem of the law of peoples is analogous to the central problem of domestic justice. The controlling factor in both cases is pluralism: pluralism of beliefs about individual good in domestic society and pluralism of cultural and religious conceptions of the good society in the international realm. Rawls models the kind of pluralism found in international relations by including in the international original position representatives of both liberal and "hierarchical" societies, provided in each case that they are "well ordered."[11] A liberal doctrine of the law of peoples that respects the fact of pluralism would consist of principles acceptable from the points of view of both liberal and decent (well-ordered) hierarchical societies, as these are represented in the original position.

Its content. The law of peoples divides into ideal and nonideal theory. Ideal theory consists of principles that apply to an idealized world political society of well-ordered domestic societies in which the principles are fully complied with and in which all societies operate in background conditions that favor just (or decent hierarchical) institutions. Rawls argues that the representatives in an international original position would agree to a familiar list of principles to constitute the law of peoples. These would provide, for example, for the legal equality of states, a qualified right against intervention, the right to go to war in self-defense, and the obligation to keep treaties. They would also include a principle requiring respect for human rights—which define a minimum standard of legitimacy for all regimes[12]—and "standards of fairness for trade," "provisions for mutual assistance in times of famine and drought," and "provisions ensuring that in all reasonably developed . . . societies people's basic needs are met."[13]

[11] The idea of a well-ordered, hierarchical society is intended to represent societies based on "comprehensive" (e.g., religious) doctrines. Such a society, although neither liberal nor democratic, seeks the common good of its people and respects basic human rights. Rawls (fn. 6), 60–62.

[12] The law of peoples is prior to domestic justice in that it limits the authority of individual states, not only in their foreign relations but also, through the requirement to respect human rights, in regard to their own people. Human rights, therefore, establish the limits of acceptable pluralism in international society. Rawls (fn. 6), 70–71.

[13] Ibid., 56. The passage refers explicitly to the principles that would be agreed to by representatives of liberal societies. Rawls later claims that the same principles would be accepted by representatives of well-ordered nonliberal societies (pp. 64–65).

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These principles of ideal theory apply to conduct in the nonideal world in two ways: by regulating relations among well-ordered liberal and hierarchical societies (the "members in good standing of a reasonable society of peoples")[14] and by establishing goals for these societies to pursue in their relations with societies that are not well ordered.[15] The most general, if not always the most urgent, such goal "is to bring all societies eventually to honor [the law of peoples] and to be full and self-standing members of the society of well-ordered peoples, and so secure human rights everywhere."[16] In particular, "each society now burdened by unfavorable conditions should be raised to, or assisted toward, conditions that make a well-ordered society possible."[17] This requirement is the source of the international distributive obligations of well-to-do societies: they must do what they can to assist societies facing unfavorable conditions to develop institutions capable of satisfying their own peoples' human rights and meeting their basic needs.

Human rights. Rawls's view differs in at least three ways from what might be considered the standard view about human rights.[18] First, Rawls does not claim that human rights are attributable to human beings "as such" or by virtue of characteristics that all human beings have in common. Instead, they express "a minimum standard of well-ordered political institutions" necessary for a society's admission as "a member in good standing of a just political society of peoples."[19] Second, unlike ordinary moral rights, human rights do not, per se, justify individuals making claims on one other. Instead, they are a special class of rights designed for the special purpose of specifying necessary conditions of the international legitimacy of any regime. Their satisfaction is "sufficient to exclude justified and forceful intervention by other peoples."[20] Finally, Rawls does not regard all of the rights named in the Universal Declaration of 1948 as "human rights proper." He includes what are generally called the rights of the person (for example, the rights to life,

[14] Ibid., 42.

[15] Of the latter there are two nonexclusive kinds: "outlaw" states, which do not respect the law of peoples (e.g., by failing to respect the integrity of other states or their own peoples' human rights), and societies subject to unfavorable economic and social conditions, which for that reason are unable to sustain well-ordered institutions. Rawls (fn. 6), 72.

[16] Ibid., 73.

[17] Ibid., 75.

[18] For a recent example of the standard view, see Alan Gewirth, *The Community of Rights* (Chicago: University of Chicago Press, 1996).

[19] Rawls (fn. 6), 68, 78.

[20] Ibid., 71. Rawls holds that there may be a right of forcible intervention, for example, when necessary to defend the well-ordered societies against "outlaw regimes" or ("in grave cases") to defend individuals subject to outlaw regimes that threaten their human rights (p. 73).

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liberty, and security, and those required to implement these rights—roughly, those recognized in articles 3–18 of the declaration and the derivative rights against genocide and apartheid). But he excludes political and economic rights like freedom of expression as distinct from freedom of thought (article 19), democratic government (article 21) and—importantly for present purposes—the right to an adequate standard of living (article 25).[21] Whereas "human rights proper" would be respected by any decent society, the other rights state "liberal aspirations" only and therefore cannot be counted as genuine human rights.[22]

DUTIES OF ASSISTANCE OR DUTIES OF JUSTICE?

Rawls's theory of the law of peoples is an important advance over his brief remarks on international justice in *A Theory of Justice*, particularly in its recognition of duties of assistance that require a significantly higher level of international transfers than those that take place today. However, these duties are not consequences of any principle of *justice*. Rawls holds that the relatively egalitarian conception of distributive justice characteristic of liberal political theory—and found in one form (as the "difference principle") in his other works [23]—has no international parallel: although he thinks that the duty of assistance would accomplish many of the same results, there is no general requirement to reduce inequalities among individuals living in societies with different endowments of natural[24] or human resources, different histories, or different cultures. There are no international duties of distributive justice, strictly speaking.[25] It is of great interest to see why.

[21] Ibid., 227–28 n. 46. But Rawls also holds that all well-ordered regimes should aim to satisfy their people's basic needs and that therefore the rights to liberty and security imply rights to subsistence (p. 225 n. 26). Though as a matter of political theory this seems correct, there is some tension with the language of the declaration, which plainly presupposes a distinction between liberty and welfare. For the 1948 declaration, see Ian Brownlie, ed., *Basic Documents in International Law*, 4th ed. (Oxford: Clarendon Press, 1995), 255–61.

[22] See Fernando R. Teson, "The Rawlsian Theory of International Law," *Ethics and International Affairs* 9 (1995); and Peter Jones, "International Human Rights: Philosophical or Political?" in Simon Caney, David George, and Peter Jones, eds., *National Rights, International Obligations* (Boulder, Colo.: Westview, 1996).

[23] The difference principle requires social and economic inequalities be to the greatest benefit of those least advantaged by them. See Rawls (fn. 4), 83.

[24] Rawls (fn. 6) suggests in a footnote that international justice might require redistribution of benefits derived from unequal resource endowments (p. 228 n. 52). The point is not developed in the text and there is no clear foundation for such a requirement in the theory.

[25] This idea is shared by other social liberals. Thus Michael Walzer: "I am inclined to think that, for now at least, ordinary moral principles regarding humane treatment and mutual aid do more work than any specific account of [international] distributive justice." "Response," in David Miller and Michael Walzer, eds., *Pluralism, Justice, and Equality* (Oxford: Oxford University Press, 1995), 293. Compare Michael Donelan, *Elements of International Political Theory* (Oxford: Clarendon Press, 1990), 196–97.

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There are at least three distinct points. First, the circumstances of international relations are different from those typical of the societies for which the difference principle was framed, and we have no reason to think that a principle that would be appropriate in the one set of circumstances would also be appropriate in the other.[26] Second, not all well-ordered societies would accept any particular liberal distributive principle for the international case; indeed, by hypothesis the decent, well-ordered hierarchical societies reject all such principles.[27] Finally, the main impediments to a society's economic and social development are more likely to lie in its public culture and religious traditions than in its resource endowments or its position in the international political economy; [28] the distributive responsibilities of outsiders to members of less favored societies must therefore be ancillary to the responsibilities of the members of those societies themselves for bringing about their own improvement.

Each point needs elaboration. Beginning with the first: in outline, the argument for a global principle of distributive justice is that international society today resembles its domestic analog in those features relevant to the justification of egalitarian principles of distributive justice. [29] The most important of these are increasing economic integration, reflected in global markets for goods, capital, and labor; international and regional institutions and regimes whose policies and activities have consequences for human well-being worldwide; and an emergent global culture and civil society that overlie but do not supplant local cultures and that generate cross-national communities of interest, loyalty, and value. In Rawls's view, however, the essential characteristics of domestic society ("a fair system of cooperation")[30] extend beyond the idea of a division of labor embedded in a legal and social structure. Two further features are essential: social institutions embody a norm of reciprocity,[31] so that the distribution of the benefits of cooperation is reasonable upon consideration of the contributions and needs of the participants; and social cooperation is regulated by publicly recognized rules that all acknowledge,[32] so that institutions and legislation are sta-

[26] The point is made several times in Rawls (fn. 6), e.g., 46–47, 48, 65–66, and particularly 75–76.

[27] Ibid., 75.

[28] Ibid., 77 and 228 n. 52. Although this point is made in the context of a discussion aimed at showing why there is no international analog of the difference principle, it may not be meant to explain why this should be so. I discuss the relevance of the observation below.

[29] Arguments for a global difference principle are worked out in Beitz, *Political Theory and International Relations* (Princeton: Princeton University Press, 1979), 143–53; and in Thomas Pogge, *Realizing Rawls* (Ithaca, N.Y.: Cornell University Press, 1989), chaps. 5–6.

[30] John Rawls, *Political Liberalism* (New York: Columbia University Press, 1993), 15.

[31] Those "who do their part . . . are to benefit in an appropriate way"; Rawls (fn. 30), 16.

[32] Ibid., 15. On the parallel requirement for well-ordered hierarchical societies, see Rawls (fn. 6), 69.

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bilized by a shared acceptance of its fundamental principles (there is, in a certain sense, a general will). According to Rawls, neither feature is found in international relations.

Those familiar with the philosophical literature will recognize that these claims raise large issues. Here, a brief comment on each point. First, the matter of reciprocity is complicated. The question is not whether reciprocity exists in the status quo but whether a reasonable reciprocity *could* exist; if the reply is yes in the domestic case, it is hard to see why it should not be the same in the international case. Second, on the matter of stability, one must consider *why* it appears less likely in the global case than in the domestic case that a shared acceptance of basic principles could support just distributive policies. It might seem that the capacity to uphold just institutions diminishes with distance. But why regard this as a limiting condition of human nature rather than as a historically variable dimension of human social behavior—which is what experience within the state suggests?[33]

Rawls's second main point is that there would be no agreement to any specific liberal principle of international distributive justice among well-ordered peoples. He does not explain, beyond observing that decent hierarchical societies would not accept any liberal principle of *domestic* distributive justice.[34] But why should differences about domestic distributive justice or differences in underlying conceptions of political legitimacy or the social good restrict agreement in the international case?[35] If we consider the matter from the perspective of the international original position—where the parties care about the well-being of their peoples and are ignorant of the economic wealth of their societies[36]—it seems that the parties have good reason to accept an egalitarian distributive principle, applied to peoples rather than to individuals, whatever their differences about justice in the domestic case.[37]

Third, there is the question of the impediments to the development of just or decent institutions in poor societies. Rawls writes:

[33] Recall Rousseau's admonition: "The boundaries of what is possible in moral matters are less narrow than we think. It is our weaknesses, our vices and our prejudices that shrink them"; Rousseau, *On the Social Contract*, trans. Donald A. Cress (Indianapolis, Ind.: Hackett, 1983), III:xii.

[34] Rawls (fn. 6), 75.

[35] Rawls (fn. 6) grants that in other respects the parties might apply a different principle in the international case than they would in the domestic case. For example, in explaining why hierarchical societies would insist on equal treatment in the international original position, even though they have inegalitarian domestic institutions, he writes: "Though a society lacks basic equality, it is not unreasonable for that society to insist on equality in making claims against other societies" (p. 65).

[36] Ibid., 54, 64–65.

[37] Thomas Pogge gives an account of the reasoning in Pogge, "An Egalitarian Law of Peoples," *Philosophy and Public Affairs* 23 (Summer 1994), 211–14.

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> Many societies with unfavorable conditions don't lack for [natural] resources. Well-ordered societies can get on with very little. . . . The great social evils in poorer societies are likely to be oppressive government and corrupt elites; the subjection of women abetted by unreasonable religion, with the resulting overpopulation relative to what the economy of the society can decently sustain. Perhaps there is no society anywhere in the world whose people, were they reasonably and rationally governed, and their numbers sensibly adjusted to their economy and resources, could not have a decent and worthwhile life.[38]

Rawls does not say that these considerations argue against a global distributive principle or in favor of a duty of assistance. Rather, the inference is that "the obligation of wealthier societies to assist in trying to rectify matters is in no way diminished, only made more difficult."[39] However, it is easy to see how this picture could influence thinking about international distributive justice: if the "great social evils" impeding social progress are primarily internal and noneconomic, then a principle of international justice would be superfluous.

The empirical question of the importance of natural resource endowments for social welfare remains unresolved; I discuss it briefly below.[40] Here, it is important to see that "unfavorable conditions" may not be purely a domestic affair even in a society that does not lack resources. For one thing, a society's engagement in the world political economy, including both its financial and its trade relations, may, through its domestic social, economic, and political effects, aggravate rather than alleviate the conditions that impede the society's improvement. Whether integration into the world economy leads to reduction of corruption or to the mitigation of poverty is dependent on the case.[41] Second, one must recognize the significance of the emerging network of international institutions that organizes and regulates the world political economy—for example, the world trade regime, the international financial and banking structure, and the prospect of a global climate regime. These institutions are not properly understood as voluntary mutual benefit schemes; their policies have consequences for the *global* distribution of benefits and burdens and, particularly from the perspec-

[38] Ibid., 77. Analogously, J. S. Mill held that a people could expect to sustain free institutions only if they struggled to achieve these institutions for themselves; Mill, "A Few Words on Non-intervention," in *Dissertations and Discussions: Political, Philosophical, and Historical* (London: Longmans, Green, Reader, and Dyer, 1867), 3:175.

[39] Rawls (fn. 6), 77.

[40] See the text preceding fn. 59.

[41] See Andrew Hurrell and Ngaire Woods, "Globalisation and Inequality," *Millennium* 24 (Winter 1995); and Stephan Haggard and Sylvia Maxfield, "The Political Economy of Financial Internationalization in the Developing World," in Robert O. Keohane and Helen V. Milner, eds., *Internationalization and Domestic Politics* (Cambridge: Cambridge University Press, 1996).

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tive of poor societies, participation on the only terms available may be practically inescapable. Rawls acknowledges that the ideal theory of the law of peoples should include "standards of fairness for trade and other cooperative arrangements,"[42] but these observations suggest that standards for the global structure might be more accurately understood as principles of justice.

Rawls's theory illustrates especially clearly the way in which social liberalism embodies a two-level conception of international society. There is a division of labor between the domestic and international levels, with states having primary responsibility for the well-being of their people and the international community maintaining background conditions that allow just or decent domestic societies to develop and flourish. The international responsibility is to encourage the flourishing of *societies*, not *individuals*. Although the idea of human rights leads to cross-cultural minimum standards for domestic institutions, even in an ideal world there would likely be substantial variations among societies in actual levels of well-being and in the extent of internal inequality. Provided that such inequalities are consistent with respect for human rights, social liberalism will not find them objectionable. The equality to which it aspires at the global level is a political equality of (just or decent) peoples organized as states; it is not in any sense an equality of persons.[43]

Laissez-faire Liberalism

Laissez-faire liberalism, sometimes identified with libertarianism, holds that a distribution is just when it has been arrived at from a previous distribution that itself was just, through a series of transactions that have not violated anyone's rights. Robert Nozick characterizes such views as "historical" theories because they make the case that the justice of a distribution depends on how it came about.[44] Such theories typically hold that considerations of liberty argue against most forms of political intervention in market processes except when required to remedy the effects of prior violations of liberty. The theories I shall consider apply this principle to the world at large. Their redistributive potential arises from the prospect that intervention in markets may be required

[42] Rawls (fn. 6), 56.

[43] There are illuminating discussions of Rawls's international theory in Stanley Hoffmann, "Dreams of a Just World Order," a review of *On Human Rights: The Oxford Amnesty Lectures 1993*, *New York Review of Books* 42 (November 2, 1995); and Darrel Moellendorf, "Constructing the Law of Peoples," *Pacific Philosophical Quarterly* 77 (June 1996). See also the works by Jones and Teson (fn. 22); and Pogge (fn. 37).

[44] Nozick, *Anarchy, State and Utopia* (New York: Basic Books, 1974), 153.

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to rectify injustices in the prior global division of benefit from the earth's resources.

THE STRUCTURE OF LAISSEZ-FAIRE THEORIES

Much of the dispute within and about laissez-faire liberalism involves the definition and justification of the rights that market transactions should respect. Whether a distribution came about through a process that respected everyone's rights, however, is only one of the factors that determine whether the distribution is just. The other factor is the justice of the predecessor distribution. And of course the same can be said of that distribution, and of its predecessor, and so on, all the way back to the beginning, when unowned things—which is to say, resources occurring in nature—were initially appropriated for private use.

Laissez-faire liberals divide over whether injustice in initial appropriation justifies subsequent remedial intervention by the state. *Status quo theorists* hold that whatever injustices may have occurred in the first appropriation will have been rectified subsequently, perhaps as a result of many generations of economic growth and innovation. There is therefore no argument for redistribution to rectify inequalities in benefits derived from resources.[45] *Laissez-faire redistributivists*, by contrast, argue that it may be necessary for the state to intervene to rectify the effects of injustices in earlier appropriations of unowned things, either by redistributing control over resources or by compensating those who have less with transfer payments from those who have more.

In what follows I shall consider the redistributivist variant, for several reasons. First, it seems to be the more plausible form of the laissez-faire theory.[46] Second, it is represented interestingly in the recent literature on international justice, principally in the work of Hillel Steiner.[47] Finally, laissez-faire redistributivism seems especially pertinent to questions of global environmental justice that have recently been before the international community.[48]

When, if ever, is an injustice committed in the appropriation of an unowned thing? Most theorists hold that initial appropriation should be limited by some sort of principle of equality.[49] Steiner argues, for ex-

[45] Nozick (fn. 44) is the best-known contemporary defender of this view.

[46] I must forgo an explanation why. There is a good discussion in G. A. Cohen, *Self-ownership, Freedom, and Equality* (Cambridge: Cambridge University Press, 1995), chaps. 3–4.

[47] Steiner, *An Essay on Rights* (Oxford: Blackwell, 1994); and idem,"Territorial Justice," in Caney, George, and Jones (fn. 22).

[48] See, e.g., Stephen Luper-Foy, "Justice and Natural Resources," *Environmental Values* 1, no. 1 (1992).

[49] Why this should be so is controversial. The controversy is best approached in the literature on Locke's theory of property acquisition, particularly in commentary on his proviso that any appropria-

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ample, that persons who appropriate more than an equal share "are imposing an unjust distribution on some or all of those who have appropriated a less than equal portion."[50] There is therefore a requirement of redress. This carries over into a world in which there are no more unowned things: in a "fully appropriated world, each person's original right to an equal portion of initially unowned things amounts to a right to an equal share of their total *value*."[51] Of course, for any individual who appropriates more than a fair share, there is no specifically identifiable individual who suffers a resulting disadvantage. So Steiner suggests imagining a "redress fund" that works by overappropriators paying into it and underappropriators making claims against it, with the amounts due and payable calculated in relation to the value of an equal share.

Several features of the Steiner view are noteworthy. First, because every living adult at any given time has a right to an equal share of resources, the value of an equal share fluctuates with population size. So there is a more or less continuous need for compensatory redistribution. Second, on this view, there is no right of inheritance; when a person dies, that person's possessions become unowned and revert to the redress fund. Finally, "germ-line genetic information" is treated as a natural resource that also is unowned (including not only genetic information about other species but also "our parents' germ-line genetic information" used "to produce us").[52] Just as with any other natural resource, appropriation (or use) of the unowned thing generates a debt to the fund.

LAISSEZ-FAIRE LIBERALISM IN GLOBAL PERSPECTIVE

Should a historical theory of distributive justice recognize state (or any other political) boundaries as having basic significance? It seems not. If the initial rights belong equally to all human beings and apply to all natural resources, it is hard to see why political boundaries should affect the validity or strength of a person's claims.[53] Of course, boundaries might have *some* significance. They might, for example, be understood as delimiting territorial aggregates composed of chunks of territory

tion of unowned things should leave "enough, and as good . . . in common for others"; see Locke, *Two Treatises of Government*, ed. Peter Laslett, 2d ed. (Cambridge: Cambridge University Press, 1967), II, sec. 27. For commentary, see A. John Simmons, *The Lockean Theory of Rights* (Princeton: Princeton University Press, 1992), 288–98 and the references cited there.

[50] Steiner (fn. 47, 1994), 268.

[51] Ibid., 271, emphasis in original.

[52] Ibid., 275. Human germ-line genetic information is not to be confused with ability as we commonly understand it, because ability depends not only on genetic endowment but also on what might broadly be called upbringing.

[53] For the argument developed, see ibid., 262–65.

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(and appurtenant natural resources) initially acquired in legitimate ways by individuals and joined by agreement.[54] This would be one way of justifying the state's authority over its territory. But the state's authority would be no more extensive than the rights of its individual founders. Thus, if there were an injustice at the stage of initial appropriation, the injustice would cast its shadow over the rights of the state. So, at least in this respect, the significance of state boundaries would be derivative rather than basic, and the state's rights over territory would be limited in the same way as the rights of its members.

The general consequences for international justice are straightforward, at least in principle: if the equal right to previously unowned things applies globally, then the "redress fund" should be conceived as a global fund, drawing its revenues and paying its claims to and from individuals wherever they are located, relying on states—if at all—only as agents for their people.[55] But if the consequences are straightforward in principle, their implementation is hardly easy to conceive. There are two central problems—how to establish the value of an equal share of natural resources and how to administer the system of transfers required to redress inequalities. Steiner does not say much on either point, except to suggest that "*states must pay rates.*"[56] The idea seems to be that a global authority would apportion and collect a resource tax from states consuming more than their fair share (conceived as the total of their people's individual shares) and pay the revenues out to states consuming less.

Finally, a note about human rights in this theory. The Steiner view is more orthodox than Rawls's in at least two ways. For Steiner, human rights belong to human beings "as such," and they support claims against other citizens and domestic institutions, as well as against individuals and groups beyond the boundaries of the state. This follows from the idea that rights represent natural rather than conventional entitlements. The scope of human rights would have to be considerably restricted, however; for example, as Steiner says very little about constitutional or political structures, there is no clear basis in his theory for rights to political participation. More to the point for our purposes, there is no human right to subsistence or to any particular minimum level of welfare, although of course the right to an equal share of the

[54] Locke (fn. 49) may have held such a view (II, secs. 117, 120–21).

[55] Steiner (fn. 47, 1994), 269–70.

[56] Ibid., 270 n. 9, emphasis in original. On the valuation of resources, see T. Nicolaus Tideman, "Commons and Commonwealths: A New Framework for the Justification of Territorial Claims," in Robert V. Andelson, ed., *Commons without Tragedy* (London: Shepheard-Walwyn, 1991).

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world's resources might make any such right superfluous. It therefore appears that the human rights acknowledged by laissez-faire liberalism constitute only a small subset of the rights of the declaration.

CRITICAL REFLECTIONS

All theories idealize. One kind of idealization in laissez-faire views is the assumption that initial appropriation satisfied the applicable principles of justice. But of course it is the nature of idealization that such assumptions may not hold true. As we have seen, this possibility is recognized in Steiner's theory by the provision for compensatory redistribution. But there are also other kinds of idealization, perhaps less obvious, in laissez-faire theories—for example, that conditions of fair competition will prevail in labor and capital markets, that individual choices in the economic realm will not be coerced, and that the transaction costs of establishing mutual benefit schemes will not be excessive. Dispute about laissez-faire theories often reflects controversy about the measures that would be necessary if assumptions like these turn out false. I believe that the most common philosophical objections to laissez-faire can be understood as reflecting doubts that its commitment to a very wide scope of individual liberty can be reconciled with the accommodations required to carry out these measures. Whether these challenges are successful is of course another matter, in any case not one to be resolved here. The point is just that these objections to the general view apply a fortiori to its globalized variant.

It is an interesting question, not much discussed by Steiner, how claims on the global fund should be calibrated. If claims are really for *redress*, then presumably they should be based on the same principle as contributions: they should be claims for the difference between the value of one's actual resource endowment and the global average. It is important to recognize the difference between this and conceptions of distributive justice that distribute according to some overall measure of need or deprivation. For resource redistributivists, the flow goes from the resource rich to the resource poor. For other kinds of redistributivists, the flow more likely goes from the wealthy to the needy. These may not be the same, because resource endowments and social wealth do not travel together—a society can be resource poor but wealthy. The laissez-faire principle could require redistribution in favor of a resource-poor society that is wealthy enough to provide adequately for its own people rather than a more resource-rich society which for any number of reasons might be less wealthy all things considered. This may seem counterintu-

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itive, but for the lasser-faire liberal it is also unavoidable: it is simply a reflection of the theory's indifference to considerations of need.[57]

Even if laissez-faire were rejected as a general theory of international distributive justice, the equal-resource principle may seem particularly apt for certain issues of environmental justice involving apportionment of natural resources that fall outside the domestic jurisdiction of individual states and are therefore not privately owned—for example, ocean fisheries, seabed minerals, or the absorptive capacity of the atmosphere. It might appear that the considerations that support the equal-resource principle also argue for an equal allocation of these common resources. But this skips a step. Recall that the equal-resource principle provides that each person has a right to an equal share of the total value of *all* natural resources. To be consistent with laissez-faire's foundations, there is no alternative to applying the principle to the full range of resources, both owned and unowned, and working backward, so to speak, to a view about the apportionment of rights to those resources that are still unowned. But in this perspective, there is no reason to think that applying the principle only to the class of unowned resources would produce an overall acceptable distribution.

The plausibility of laissez-faire redistributivism at the global level may derive, not from the plausibility of the laissez-faire principle itself, but instead from the distinct idea that it is not fair for some people (or societies) to do better than others simply because they find themselves more richly endowed with natural resources. After all, differences in resource endowments taken broadly (including, for example, differences in climate and geography as well as natural resources conventionally understood) seem as arbitrary as anything could possibly be.[58] It is far from settled, however, that relatively rich resource endowments are, in fact, an advantage. On the one hand, developing societies as a group seem to be less well endowed with natural resources than were today's industrialized societies at a similar stage of development. Moreover, tropical societies (taking location as a resource) tend to have lower rates of economic growth and lower levels of well-being (measured, for example, by per capita purchasing power or life expectancy) than those in the temperate zones. By contrast, resource-rich developing societies

[57] Of course, nothing in either version of laissez-faire liberalism precludes charitable transfers to help avoid or relieve human-rights deprivations.

[58] I made such an argument in Beitz (fn. 29), 136–43. For a similar view, see Brian Barry, "Humanity and Justice in Global Perspective," in Barry, *Democracy, Power and Justice: Essays in Political Theory* (Oxford: Clarendon Press, 1989), 448–52.

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tend to have *lower* rates of economic growth than resource-poor societies, perhaps because the easy availability of exportable natural resources reduces incentives to establish the industrial structure and trade relations needed for sustainable economic improvement. The importance of resource endowments for economic growth is one of the great open questions in the study of the development of societies. Notwithstanding, it seems plausible to say, as Gustav Ranis concludes from a comparison of East Asian and Latin American cases, that "[t]he problem is not that more natural resources (like more foreign capital) *cannot* be good for you—but that instead of being used to ease the pain of change, they are likely to be used to postpone change."[59]

What follows for the question of distributive justice? Not, I think, that there is no unfairness in unequal resource endowments, for nothing about *fairness* follows from empirical observations about how resource-rich societies tend to squander their good fortune. If one shares the view that individuals are entitled to benefit equally from the world's resources, then the right conclusion is that resource inequalities should be compensated for, but in ways that encourage or at least do not obstruct the processes of economic and social transformation through which a society must pass in order to develop the capacity to satisfy its people's material needs. How this might occur is, of course, a complicated question of development policy.

Cosmopolitan Liberalism

The philosopher Diogenes, when asked where he came from, was reported to have replied, "I am a citizen of the world."[60] The point of view suggested by this remark seeks to regard the whole world as a single entity and to see each part of the whole in its true relative proportion. If local viewpoints can be described as partial, then Diogenes' is impartial.

This abstract idea occurs in international thought in at least two different senses, which we might call institutional and moral cosmopoli-

[59] Gustav Ranis, "Toward a Model of Development," in Lawrence B. Krause and Kim Kihwan, eds., *Liberalization in the Process of Economic Development* (Berkeley: University of California Press, 1991), 100, emphasis in original; and Jeffrey D. Sachs and Andrew M. Warner, *Natural Resource Abundance and Economic Growth,* NBER Working Paper no. 5398 (Cambridge, Mass.: National Bureau of Economic Research, 1995).

[60] Diogenes Laertius, *Diogenes*, in *Lives of Eminent Philosophers,* trans. R. D. Hicks, Loeb Classical Library (London: William Heinemann, 1925), vol. 2, vol. 6:63. I rely here and in the next paragraph on my article, "Cosmopolitan Liberalism and the States System," in Chris Brown, ed., *Political Restructuring in Europe* (London and New York: Routledge, 1994). On the idea of the cosmopolitan and national sentiment, see Martha Nussbaum's leading essay in Martha Nussbaum and respondents, *For Love of Country: Debating the Limits of Patriotism*, ed. Joshua Cohen (Boston: Beacon Press, 1996).

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tanism. The first refers to the way the world's political institutions should be set up. It holds that the world's political structure should be reshaped so that states and other political units are brought under the authority of supranational agencies of some kind—a "world government," for example, or perhaps a network of loosely associated regional bodies. The second kind of cosmopolitanism concerns itself, not with institutions themselves, but with the basis on which institutions should be justified or criticized. In Thomas Pogge's phrase, moral cosmopolitanism is the notion "that every human being has a global stature as the ultimate unit of moral concern."[61] This kind of cosmopolitanism is the natural offspring of the individualist moral egalitarianism often associated with the liberalism of the Enlightenment. It applies to the whole world the maxim that choices about what we should do or what institutions we should establish should be based on an impartial consideration of the claims of each person who would be affected.

COSMOPOLITANISM AND INSTITUTIONS

Cosmopolitanism about ethics does not necessarily imply cosmopolitanism about institutions. It is consistent with moral cosmopolitanism to hold that something like the state system is better than anything like a world government—perhaps because human interests are best served in a world partitioned into separate societies whose members recognize special responsibilities for one another's well-being. (Kant's cosmopolitanism was of this kind.) Moral cosmopolitanism is distinguished not by any particular view about world political organization but rather by a view about the moral basis on which this question should be decided.[62]

This applies as well to the question of international distributive justice: cosmopolitanism does not dictate any particular view so much as it states a condition that the justification of any acceptable view must satisfy. So it should not be surprising that there are many different cosmopolitan views about international distributive justice—human rights theories, globalized utilitarianism, various forms of global egalitarianism, and pluralistic theories of global scope. Also worthy of mention, although not well represented in the recent philosophical literature, are conceptions of world order in the natural law tradition that take the human community as the broadest reference.[63]

[61] Thomas W. Pogge, "Cosmopolitanism and Sovereignty," *Ethics* 103 (October 1992), 49.

[62] Onora O'Neill, *Towards Justice and Virtue* (Cambridge: Cambridge University Press, 1996), 172.

[63] The application of such a view to questions of global distributive justice is perhaps clearest in the encyclical letter of Pope Paul VI, *Populorum Progressio* (Of the development of peoples), *Acta Apostoli-*

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If there is a major axis of differentiation among these theories, it is the extent to which a view treats the state or national (or other) community as an enclave of special distributive responsibilities which are distinct and justified separately from general or global responsibilities. Some views treat special responsibilities, to the degree they may be said to exist at all, merely as "administrative device[s] for discharging our general duties more efficiently."[64] Such views hold that distributive justice at the domestic level is *continuous* with distributive justice at the global level: once the requirements of international distributive justice are settled, there is no further, separate question about domestic justice. Two such views would be a contractualist or Rawlsian theory with a global difference principle and a global theory of basic income like that proposed by Philippe van Parijs.[65]

Other views hold that special responsibilities can arise from sources other than general duties—for example, from relationships that have value for their participants (including membership in social groups)—but that these responsibilities are constrained by global distributive considerations. Such theories are *discontinuous*, meaning that they allow for distributive requirements within sectional units which are different from, and possibly more stringent than, those at the global level. For example, a theory might establish a global distributive threshold, perhaps in terms of subsistence rights or basic needs, and permit variations at the sectional level consistent with the threshold. Both Henry Shue and Thomas Pogge have proposed theories of this kind.[66]

Most cosmopolitan theorists hold that a more or less expansive subset of the human rights of the declaration yields a reasonable proxy for standards of global justice. The subset includes at a minimum basic rights to security and subsistence; some writers would include other rights as well.[67] There is disagreement, however, about the character of

cae Sedis 59:257–99 (1967), reprinted in Claudia Carlen, ed., *The Papal Encyclicals* (Wilmington, N.C.: McGrath Publishing, 1981), 5:183–201.

[64] Robert E. Goodin, "What Is So Special about Our Fellow Countrymen?" *Ethics* 98 (July 1988), 685. For the application to international distributive justice, see Goodin, *Protecting the Vulnerable* (Chicago: University of Chicago Press, 1985), 154–69.

[65] For the globalized Rawlsian view, see Beitz (fn. 29), pt. 3; and Pogge (fn. 29), chaps. 5–6. On the global basic income, see Philippe van Parijs, *Real Freedom for All: What (If Anything) Can Justify Capitalism?* (Oxford: Clarendon Press, 1995), 223–28.

[66] Henry Shue, *Basic Rights*, 2d ed. (Princeton: Princeton University Press, 1996); Pogge (fn. 61); idem, "How Should Human Rights Be Conceived?" *Jahrbuch für Recht und Ethik* 3 (1995); and idem, "Standards of Living within a Global Discourse about Justice: Moral Philosophy and Social Systems," *Zeitschrift für Philosophische Forschung* 51 (1997). Because discontinuous views resemble the social liberalism of Rawls, it might be asked whether they are really forms of cosmopolitanism at all. The answer is that they are, because they explain the discontinuity in ways consistent with cosmopolitan impartiality.

[67] For example, Jeremy Waldron argues that the right to "periodic holidays with pay" (Universal Declaration, art. 24) states a universal human interest that should be recognized in a plausible doctrine

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the requirements that follow. Pogge distinguishes between "interactional" and "institutional" conceptions. According to interactional conceptions, human rights constrain individuals and groups, whereas according to institutional conceptions, human rights directly constrain only institutions and shared practices.[68] Thus, for example, from an interactional perspective, a human right to subsistence could justify claims on anyone in a position to satisfy the right. From an institutional perspective, by contrast, such a right justifies claims only against those institutions and shared practices of which the claimant is a part (if the right justifies a claim against outsiders, it is for noninterference with efforts to reform the practices so that the right would be observed).

Pogge associates himself with the institutional understanding and attributes an interactional understanding to Shue.[69] But this may be misleading, and it is useful to see why. There are really two distinctions to be drawn, one concerning a theory's agents and the other concerning its justification. These distinctions are orthogonal to each other. The first is between (1) theories that impose requirements primarily on institutions and practices and (2) those that impose requirements primarily on individuals and groups. The second is between (a) theories that justify their requirements in ethically significant aspects of people's relationships and associations (including participation in shared practices) and (b) those that justify their requirements in other ways. Pogge's notion of an institutional conception of human rights combines (1) and (a). He correctly interprets Shue as holding a version of (b) and infers that Shue must also hold (2). But (2) and (b) need not travel together, and I think the combination misrepresents Shue's position.[70]

In any case, any theory of human rights with pretensions to political relevance certainly must be institutional in sense 1: its requirements, that is, should apply mainly to institutions and practices rather than to individuals. The real question involves the allocation of these requirements among levels of institutions. This is where the second distinction becomes relevant. Theories holding (a) would presumably allocate duties in some relationship to the underlying structure of institutions and practices: since the causal contribution of an institution to a deprivation is significant, the extent of the global responsibility to remedy the de-

of human rights; Waldron, *Liberal Rights: Collected Papers, 1981–1991* (Cambridge: Cambridge University Press, 1993), 12–13. Both Shue and Pogge argue that there is a human right to political participation: Shue (fn. 66), chap. 3; Pogge (fn. 66, 1997).

[68] Pogge (fn. 61), 50–51. There is an extended discussion in Pogge (fn. 66, 1995).

[69] Pogge (fn. 66, 1995), 116.

[70] Shue (fn. 66) argues for a complex allocation of duties, the most salient falling on institutions at both domestic and international levels. See the 1996 afterword, esp. 224 nn. 21 and 25 and p. 225 n. 27.

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privation, as Pogge writes, "hinges on the extent to which our global institutional scheme is causally responsible for current deprivations."[71] Theories holding (b) need not associate duties with causal contribution; Shue, for example, argues that duties should be allocated according to considerations of feasibility and relative urgency.[72] The difference matters: other things equal, theories of type 1b are likely to demand more of international institutions and of wealthy societies than theories of type 1a.

What this illustrates—and the reason for belaboring what may seem to be an arcane point—is that the central philosophical problem about human rights, which stands in particular relief in connection with economic rights, is to give an account of their foundations that can explain not only why the rights are of such great importance in themselves but also how and why they obligate others (whether individuals or institutions). Theories like Pogge's, which derive their rights from an underlying conception of global justice, have the advantage here, because the machinery that explains why some people have rights also explains why institutions and/or other people have corresponding duties. Theories like Shue's, which derive their rights directly from considerations about individual human interests, must look elsewhere for the philosophical resources to explain why duty bearers should contribute to the satisfaction of other people's rights.[73]

DOUBTS ABOUT COSMOPOLITAN THEORIES

Cosmopolitan theories typically evoke doubts. One is that such theories are unrealistic in one (or both) of two senses: either they require more extensive international reform than seems likely politically or they require the establishment of international institutions with a degree of coercive power that states are not likely to concede. Cosmopolitans can reply that any reasonable theory must be constrained by what is possible. It might therefore establish incremental or reformist goals capable of being accomplished under prevailing conditions and seek ways to change these conditions so that further incremental improvements can eventually be brought about.

Of course—and this is a second kind of doubt—it might be argued that the real problem with cosmopolitanism is not that it is unrealistic in an empirical sense but rather that it is unrealistic in a *moral* sense. It might be said, in particular, that cosmopolitanism misunderstands peo-

[71] Pogge (fn. 61), 53.
[72] Shue (fn. 66), chap. 2 and the 1996 afterword.
[73] For a further discussion, see Shue, "Mediating Duties," *Ethics* 98 (July 1988).

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ple's local affiliations—that is, attachments to various communities that are typically experienced as imposing responsibilities different in kind and degree from those imposed on us by our common humanity. In fact, I believe that the philosophical weakness most characteristic of cosmopolitan theories—although not found equally in all of them—is a failure to take seriously enough the associative relationships that individuals do and almost certainly must develop to live successful and rewarding lives. However, this is not to say that the weakness cannot be overcome, and it is hardly clear that a sophisticated cosmopolitanism *cannot* explain how local affiliations might give rise to special responsibilities. Such a view would recognize the value to individuals of their associations with domestic or local communities and argue that ethically significant properties of these associations justify internal distributive arrangements that are different from, although not inconsistent with, what is required by global principles.[74]

A third kind of doubt about cosmopolitan distributive theories emerges from the contrast with social liberalism concerning the apportionment of responsibility for improving material standards of living within a society. We have seen that social liberalism holds societies themselves to have the primary responsibility for meeting the needs of their people, with the international community functioning mainly to keep peace, maintain orderly conditions of trade, and perhaps relieve distress in times of emergency. An important way in which domestic societies provide for their own development is through prudent savings and investments in both physical and human capital. By contrast, a cosmopolitan view might seem to amount to a global sharing of responsibility, which, in the absence of a global culture strong enough to provide stability and motivate contribution, could generate an unending series of transfers from societies prudent enough to invest rather than consume to those imprudent enough to do the opposite. This hardly seems fair.

This is plainly a serious concern. However, it should not be overstated. The concern is a precise analog of one often heard in disputes about distributive justice within the state (most often from libertarians), where it is said that redistribution unfairly penalizes those who

[74] A subtle and complex exploration of this idea can be found in a series of papers by Samuel Scheffler: "Families, Nations and Strangers," *The Lindley Lecture* (Department of Philosophy, University of Kansas, 1995); "Individual Responsibility in a Global Age," *Social Philosophy and Policy* 12 (1995); "Liberalism, Nationalism, and Egalitarianism," in Robert McKim and Jeff McMahan, eds., *The Morality of Nationalism* (New York: Oxford University Press, 1997); and "Relationships and Responsibilities," *Philosophy and Public Affairs* 26 (Summer 1997). There is an extensive further literature on the question of special responsibilities; for a recent discussion, see Andrew Mason, "Special Obligations to Compatriots," *Ethics* 107 (1997), including the references cited.

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have worked hard for the benefit of those who have not worked hard enough. The reply in the domestic case is familiar and I shall not recite it here, for the question is not whether a reply is possible but why, if such a reply were persuasive in that case, it should not be persuasive in the international case as well.

Prospect

Political theory differs from the more systematic theoretical disciplines in the absence of any widely accepted axiomatic foundation. We do not make progress so much by tracing the consequences of shared axioms as by working out alternative conceptions and looking to see how accurately their assumptions represent the empirical world, how well their conclusions hang together, and how fully they explain (or how persuasively they challenge) our prereflective beliefs.

International liberalism is at an early stage compared with the more familiar liberalism of the territorial state. But as I hope this article demonstrates, there is evidence of progress in both the richness and the diversity of recent liberal thought about the distributional aspects of international relations. The subject matter is well recognized and the range of distinct theoretical perspectives is discernible. At the same time, unsurprisingly, there are very many open questions. To conclude, I comment briefly on four of these.

The extent and kind of international redistribution that justice requires. Only status quo laissez-faire liberals would deny that there is a standing presumption in the world as we know it in favor of some kind of international redistribution. But views differ as to the extent of the required international transfers, the principles that should guide the allocation of costs and benefits, and the proper role of the state in their collection and distribution. For example, Rawls's theory calls for "economic and technological aid" aimed at helping certain societies become capable of sustaining internally just institutions, while leaving both the initiative for seeking help and the authority for its allocation within those societies. But any cosmopolitan theory would probably place a larger share of the responsibility on outsiders and would be less deferential as a matter of principle to domestic-level institutions in setting priorities for the internal disposition of international aid.[75] And of course laissez-

[75] Political as well as economic conditions on development assistance are now common. The ethical issues are serious, as Joan M. Nelson and Stephanie J. Eglinton observe: *Global Goals, Contentious Means: Issues of Multiple Aid Conditionality* (Washington, D.C.: Overseas Development Council, 1993), 83.

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faire redistributivists and those particularly impressed with the injustice of the global distribution of natural resources would assign both duties and entitlements on a different basis than would either of these other views.

These issues are significant and are unlikely to be settled without more substantial theories than we have on hand. But one should not overstate the range of disagreement at the level of policy. For that is the realm of nonideal theory, which, although shaped by a theory's conception of ideal justice, is also constrained by the institutional capacities available in the world as it is. It seems a plausible conjecture that these constraints would produce a convergence on measures to increase the flow of resources from well-off countries through bilateral and multilateral development agencies to poor countries where investments in physical and human capital are likely to produce sustainable improvements in minimum standards of living. Pogge's proposal of a global resource tax is one possible focus of such a convergence, which in any case would be interesting to investigate further.[76]

Principles for international institutions. It is no more likely in the international realm than in domestic society that lasting changes in the distribution of life chances would be produced by a series of transfers, or that doing so would be the best way to carry out the requirements of international distributive justice, whatever they turn out to be. The institutional structure is fundamental. However, few of the theories and theorists we have considered take up the requirements of international distributive justice for international institutions as opposed to the foreign policies of states. This may be because, in contrast to the domestic case, it is unclear how the international structure influences the global distribution of well-being.[77] An example related to the world trade regime may be suggestive. This is the recent international agreement establishing international minimum standards for protection of intellectual property (the Trade-Related Aspects of Intellectual Property Agreement, or TRIPS). Because most intellectual property is owned in the rich countries, some analysts predict that the new agreement, which strengthens intellectual property protections and the international ca-

[76] Pogge (fn. 43); and idem, "A Global Resources Dividend," in David A. Crocker and Toby Linden, eds., *Ethics of Consumption: The Good Life, Justice, and Global Stewardship* (Lanham, Md.: Rowman and Littlefield, 1997).

[77] Few students of international institutions and regimes have systematically explored their distributional effects. The importance of such empirical work cannot be overstated. For a start, see Andreas Hasenclever, Peter Mayer, and Volker Rittberger, *Justice, Equality, and the Robustness of International Regimes: A Research Design*, Tübinger Arbeitspapiere zur Internationalen Politik und Friedensforschung, no. 25 (Tübingen: Institut für Politikwissenschaft, Universität Tübingen, 1996).

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pacity for enforcement, will result in welfare losses for poor countries.[78] Without engaging the empirical question, the example surely shows how international regimes can have a normative significance similar to that of the basic institutions of domestic society. A theory of international distributive justice that aspires to practical effect should make clear how its requirements apply to such regimes.

Intergenerational justice and environmental resources. Any theory of international distributive justice must take account of intergenerational justice as well. When Rawls wrote *A Theory of Justice*, he conceived the latter as a problem of fixing a just savings rate, assuming that each generation would add to the total capital stock so that standards of living would continuously improve, at least up to a point where just institutions could be fully realized.[79] With greater awareness of the environmental consequences of growth, one sees that things are more complicated. The present generation is in a position to *reduce* the capital stock available to support future consumption (and hence the standard of living), not necessarily by using up human-made capital, but rather by using up nonrenewable natural resources, including those that enable the biosphere to absorb and dissipate the harmful byproducts of growth. Thus, the problem of intergenerational justice can be framed as a problem of fixing a just savings rate only if this idea is taken to a higher level of abstraction than it has in Rawls's discussion: we must think of the savings rate as a constraint on current consumption expressed in terms of a complex aggregate of capital amassed, resource use forgone, and technology developed to conserve and regenerate the biosphere's absorptive capacity.[80]

In the nonideal world it may be especially difficult to distinguish between international and intergenerational distributive justice: because economic and social development extends over several generations, international action might be required either to rectify the injustices of past generations in wealthy societies or to satisfy the requirements of intergenerational justice in the present in poor ones. As these possibilities suggest, the interaction of international and intergenerational con-

[78] J. H. Reichman, *Implications of the Draft TRIPS Agreement for Developing Countries as Competitors in an Integrated World Market*, UNCTAD Discussion Papers no. 73 (UNCTAD/OSG/DP/73, November 1993); A. Samuel Oddi, "TRIPS: Natural Rights and a 'Polite Form of Economic Imperialism,'" *Vanderbilt Journal of Transnational Law* 29 (May 1996).

[79] Rawls (fn. 4), 288. See also Barry, *Theories of Justice: A Treatise on Social Justice* (Berkeley: University of California Press, 1989), 1:193.

[80] The task is complicated by dispute about the extent to which technology can be expected to substitute for exhaustible natural resources. For an accessible discussion, see David I. Stern, "The Capital Theory Approach to Sustainability: A Critical Appraisal," *Journal of Economic Issues* 31 (March 1997). I am grateful to David Vail for instructive discussion on this point.

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siderations in nonideal theory is likely to be very complex and merits closer examination than it has received.

Human rights. I said at the beginning that any plausible form of international liberalism should include an interpretation of the doctrine of human rights. Human rights today serve as terms of reference for foreign policy in many of the liberal democracies; as normative standards for policy in international financial and development institutions; and as a basis of appeal for international or supranational intercession in cases of otherwise irresolvable domestic dispute. In all of these respects human rights play what might be called an institutional role; that is, they operate as standards to be applied both by and to domestic and international institutions. In addition, and importantly, human rights also play another kind of role in international life. They serve as a basis for criticism and political action by the array of nongovernmental organizations that constitute an emergent global civil society and whose main impact, significantly and perhaps unexpectedly, may be felt in a slow transformation of domestic political cultures.[81]

For all its centrality in contemporary international life, the doctrine of human rights still lacks a widely accepted theory. In some measure as a result, it is open to two kinds of doubt, first as to its neutrality among the world's moral cultures and second as to its scope. Rawls's discussion in "The Law of Peoples" is aimed primarily at the first problem, seeking to show that at least some human rights are fit to serve as minimum standards for the institutions of all decent societies, whether liberal or otherwise. There is no question of the significance—both philosophical and political—of this effort. But the second problem—about the scope of human rights—is equally important, particularly insofar as it implicates questions about the material minimum that should be upheld by any decent society and the extent to which the wealthy, whatever their location, have responsibilities to contribute to its achievement. Moreover, as these dilemmas are not matters of intercultural disagreement, resolving them need not be held hostage to doubt about the neutrality of the doctrine.[82]

I cannot conclude without a parting comment about the sense in which these three kinds of international liberalism should be counted as distinct positions. I said at the beginning that the three views differ

[81] There is an eloquent discussion in Geoffrey Best, "Justice, International Relations, and Human Rights," *International Affairs* 71 (October 1995), esp. 794–98.

[82] Vincent (fn. 6) argued more than a decade ago for what he called "the priority of subsistence rights" in contemporary international policy, noting, inter alia, the possibility of solutions that do not engage major ideologies in conflict (p. 147).

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in the grounds they recognize for concern about the distributive characteristics of international society, and consequently in the distributive principles they recommend. Thus, social liberalism is motivated by a desire to raise up individual societies to a point where they can sustain their own just or decent institutions and only indirectly by a concern for the material well-being of individuals. Its ideal is a world of peaceful and decent societies; in such a world, inequalities between persons in different countries, whatever their magnitude, would not raise concerns of *justice*. Laissez-faire liberalism in the redistributivist variant is motivated by a perception of the potential for injustice arising from unequal appropriation of unowned things; the avoidance or rectification of such inequality is the price to be paid for the extensive individual liberties, including market liberties, defended by the theory. There is no direct concern about the capacity of a society to support just or decent institutions or about inequalities among persons or societies that arise otherwise than from the partition of benefit from natural resources. In contrast to both of these positions, cosmopolitan liberalism takes the interests of individuals as fundamental and as entitled to equal concern on a global scale, and it holds that the basic institutions of society, at both the global and sectional levels, should be justified in ways consistent with this fundamental commitment.

These distinctions may seem too simple, for both social liberalism and laissez-faire liberalism can appear to be no more than special cases of the cosmopolitan view. Both views, after all, embrace doctrines of human rights, and both views would most likely generate strongly redistributivist principles for political action in the nonideal world. But it hardly follows that the social and laissez-faire views are simply variations on a cosmopolitan theme. This depends on how the differences are accounted for—how, for example, social liberalism can account for the special position accorded to the state or how laissez-faire liberalism can explain why we should not be troubled by inequalities arising otherwise than from inequalities in initial appropriation. Perhaps an account of these differences that is consistent with the equal moral standing of every person can be given, and perhaps not. So whether there are three forms of international liberalism, or only one, remains to be seen.

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THE POLITICAL ECONOMY OF THE RESOURCE CURSE

By MICHAEL L. ROSS*

Terry Lynn Karl. *The Paradox of Plenty: Oil Booms and Petro-States.* Berkeley: University of California Press, 1997, 342 pp.

Jeffrey D. Sachs and Andrew M. Warner. *Natural Resource Abundance and Economic Growth*, Development Discussion Paper no. 517a. Cambridge: Harvard Institute for International Development, 1995, 49 pp.

D. Michael Shafer. *Winners and Losers: How Sectors Shape the Developmental Prospects of States.* Ithaca, N.Y.: Cornell University Press, 1994, 272 pp.

> It is the devil's excrement. We are drowning in the devil's excrement.
> —*Juan Pablo Pérez Alfonso,* Founder OPEC

> We are in part to blame, but this is the curse of being born with a copper spoon in our mouths.
> —*Kenneth Kaunda,* President of Zambia

> All in all, I wish we had discovered water.
> —*Sheik Ahmed Yamani,* Oil minister, Saudi Arabia

HOW does a state's natural-resource wealth influence its economic development? For the past fifty years, versions of this question have figured prominently in debates over dependency theory, economic dualism, a proposed New International Economic Order, East Asia's success, and Africa's collapse. Since the late 1980s, economists and political scientists have produced a flood of new research that bears on this question. There is now strong evidence that states with abundant resource wealth perform less well than their resource-poor counterparts, but there is little agreement on why this occurs.

At first glance, the role of resource wealth in economic development looks like a question of dwindling importance. In 1970, 80.4 percent of the developing world's export earnings came from primary commodi-

* For their generous comments on earlier drafts of this article, I am grateful to Chris Achen, Pradeep Chhibber, Richard Doner, Robert Franzese, Suzi Kerr, Miriam Lowi, Robert Pahre, Jeffrey Vincent, Jennifer Widner, and two anonymous reviewers.

World Politics 51 (January 1999), 297–322

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ties; by 1993 it had dropped to 34.2 percent. But most of this drop was caused by the fast growth of manufactured exports in East Asia and a handful of Latin American states. Three-quarters of the states in sub-Saharan Africa and two-thirds of those in Latin America, the Caribbean, North Africa, and the Middle East still depend on primary commodities for at least half of their export income.[1] For these countries the "resource curse" is an urgent puzzle.

In this article I review efforts by both economists and political scientists to explain how the export of minimally processed natural resources, including hard rock minerals, petroleum, timber, and agricultural commodities, influences economic growth.[2] I first summarize the evidence for a resource curse and review new research on the four most prominent economic explanations for the curse: a decline in the terms of trade for primary commodities, the instability of international commodity markets, the poor economic linkages between resource and nonresource sectors, and an ailment commonly known as the "Dutch Disease."

I then review efforts to explain the political aspects of the resource curse—why resource-exporting governments seem to manage their economies so poorly. Most explanations fall into one of three categories: cognitive explanations, which contend that resource booms produce a type of short-sightedness among policymakers; societal explanations, which argue that resource exports tend to empower sectors, classes, or interest groups that favor growth-impeding policies; and state-centered explanations—including recent books by D. Michael Shafer and Terry Lynn Karl—which contend that resource booms tend to weaken state institutions.

In the third and final section, I discuss two other explanations for the curse that might be fruitfully explored, but which have received little attention. The first explanation would attribute the curse to state-owned enterprises, which typically govern resource extraction in developing states. The second suggests that a state's inability to enforce property rights may directly or indirectly lead to a resource curse.

[1] United Nations Conference on Trade and Development (UNCTAD), *Commodity Yearbook 1995* (New York: United Nations, 1995).

[2] I have deliberately omitted the extensive literature on the sociological impact of resource extraction on local communities. Important recent works include: Bradford Barham, Stephen G. Bunker, and Dennis O'Hearn, eds., *States, Firms, and Raw Materials: The World Economy and Ecology of Aluminum* (Madison: University of Wisconsin Press, 1994); Stephen G. Bunker, *Underdeveloping the Amazon: Extraction, Unequal Exchange, and the Failure of the Modern State* (Urbana: University of Illinois Press, 1985); Scott Frickel and William R. Freudenburg, "Mining the Past: Historical Context and the Changing Implications of Natural Resource Extraction," *Social Problems* 43 (November 1996); and Nancy Lee Peluso, *Rich Forests, Poor People: Resource Control and Resistance in Java* (Berkeley: University of California Press, 1992).

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From the 1950s to the 1970s, the question of resource wealth was at the center of debates between mainstream development scholars and their Marxist and non-Marxist critics. Since then, the study of resource wealth and development has grown less ideological and more empirical, and the quality of the empirical work has improved sharply. Yet with the ideological stakes lowered, research on this topic has grown lamentably fragmented: economists and political scientists seem to be unaware of each others' contributions, and political scientists are often divided by their area specialties. One purpose of this article is to better acquaint scholars with each others' work, and to show how recent studies from a wide range of subfields can cast light on the special problems of resource exporters.

A second aim is to compare the approaches of economists and political scientists to this issue. Since the 1950s economists have continued to investigate a small number of powerful explanations for the resource curse, employing better data sets and increasingly sophisticated statistical tools. Some of their findings are incomplete and unsatisfying; still, they contain significant results.

Political scientists, by contrast, have produced scores of explanations for the resource curse and an equal number of case studies, yet have rarely tried to test their theories with either well-selected comparative cases or large-N data sets. Their reluctance to test almost certainly reflects the obstacles that political scientists commonly face in the developing world, where data can be poor, missing, or prohibitively costly to obtain. It may also reflect, however, a disregard for the practice of hypothesis testing. Whatever its origins, the absence of hypothesis testing has had two lamentable consequences: there has been little accumulation of replicable findings on the policy failures of resource exporters; and absent the need to render their theories testable, many scholars have neglected tasks that would help refine and sharpen their arguments—carefully defining their variables, specifying the domain of relevant cases to which their arguments apply, and framing their causal arguments in generalizable, and falsifiable, terms. The ultimate result has been a widening gap between our improved understanding of the economic predicament and our still weak understanding of the political predicament of states that rely heavily on commodity exports.

Is There a Resource Curse?

A casual glance at growth rates across the developing world, with stagnation in resource-rich Africa and rapid growth in resource-poor East

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Asia, seems consistent with the notion of a resource curse. But how strong is the evidence?

Until recently, most of the evidence for the resource-curse hypothesis came from states that export either hard-rock minerals or petroleum. Nankani showed that from 1960 to 1976 the developing world's leading hard-rock mineral exporters had a per capita GDP growth rate of 1.9 percent, half the rate of a control group of nonmineral states.[3] A 1984 study of thirty states in sub-Saharan Africa found a negative correlation between economic performance and the share of hard-rock minerals in total exports.[4] According to a study sponsored by the World Bank, during the 1971–83 boom years, both major oil exporters and major hard-rock mineral exporters performed less well than their resource-poor counterparts; Auty later confirmed these findings.[5] Davis, however, disputed these results, arguing that between 1970 and 1991, the twenty-two developing states most dependent on minerals exports performed just as well as nonmineral states.[6]

The most comprehensive study to date, however, now paints a gloomier picture. Jeffrey D. Sachs and Andrew M. Warner in *Natural Resource Abundance and Economic Growth* examine ninety-seven countries over a nineteen-year period, using regression analysis to measure the impact of mineral and other resource exports on GDP growth. Their study shows that states with a high ratio of natural resource exports to GDP in 1971 had abnormally slow growth rates between 1971 and 1989. The correlation remained significant even after the authors controlled for a wide range of growth-related variables, including initial per capita income, trade policy, investment rates, region, bureaucratic efficiency, terms-of-trade volatility, and income distribution.[7] What accounts for this effect?

[3] Gobind T. Nankani, "Development Problems of Nonfuel Mineral Exporting Countries," *Finance and Development* 17 (January 1980).

[4] David Wheeler, "Sources of Stagnation in Sub-Saharan Africa," *World Development* 12 (1984).

[5] Alan Gelb and associates, *Oil Windfalls: Blessing or Curse?* (New York: Oxford University Press, 1988); Richard M. Auty, *Sustaining Development in the Mineral Economies: The Resource Curse Thesis* (London: Routledge, 1993).

[6] Graham A. Davis, "Learning to Love the Dutch Disease: Evidence from the Mineral Economies," *World Development* 23, no. 10 (1995).

[7] The correlation also remained significant when the records of six oil-rich, slow-growing economies—Saudi Arabia, Oman, Kuwait, the United Arab Emirates, Bahrain, and Iraq—were excluded from the database.

A 1982 study, which controlled for only population and secondary-school enrollment, found that for forty-eight developing states the level of export processing in 1955 was highly correlated with GNP per capita in both 1970 and 1977. See Randall Stokes and David Jaffee, "Another Look at the Export of Raw Materials and Economic Growth," *American Sociological Review* 47 (June 1982). An earlier study by Jacques Delacroix, using a cruder measure of export processing, produced negative results. See Delacroix, "The Export of Raw Materials and Economic Growth: A Cross-National Study," *American Sociological Review* 42 (October 1977).

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Economic Explanations for a Resource Curse

In the early 1950s most development economists suggested that resource abundance would help the "backward" states, not harm them. Developing states were thought to suffer from imbalances in the factors of production: most had surpluses of labor, but shortages of investable capital. States with abundant natural resources could most easily overcome these capital shortfalls, thanks to both their ability to export primary commodities and their attractiveness to foreign investors. Their governments would also find it easier to collect revenues and hence provide public goods.[8]

But a minority of scholars—most of them structuralists—raised three objections to development strategies based on resource exports. First, Prebisch and Singer argued that primary commodity exporters would suffer from a decline in the terms of trade, which would widen the gap between the rich industrialized states and the poor resource-exporting states.[9] Second, other scholars noted that international commodities markets were subject to unusually sharp price fluctuations. States that relied on commodity exports would find these fluctuations transferred to their domestic economies, making government revenues and foreign exchange supplies unreliable and private investment prohibitively risky.[10] Finally, a third group of skeptics argued that resource industries were unlikely to stimulate growth in the rest of the economy, particularly if foreign multinationals dominated resource extraction and were allowed to repatriate their profits instead of investing them lo-

[8] See, for example, Jacob Viner, *International Trade and Economic Development* (Glencoe, Ill.: Free Press, 1952); W. Arthur Lewis, *The Theory of Economic Growth* (Homewood, Ill: R. D. Irwin, 1955); Joseph J. Spengler, ed., *Natural Resources and Growth* (Washington, D.C.: Resources for the Future, 1960). The most ardent support for resource-based development strategies came from economists identified with the staple theory of growth, which grew out of Harold A. Innis's studies of the Canadian fur and cod industries, and Douglass C. North's early work on economic growth in the western U.S. Proponents of the staple theory suggested that economic development in backward areas commonly begins with resource booms that draw in labor and capital. As the booms proceed, the profits of this core resource sector are reinvested in local infrastructure and value-added industries, producing a diversified pattern of growth. See Innis, *Essays in Canadian Economic History* (Toronto: University of Toronto Press, 1956); North, "Location Theory and Regional Economic Growth," *Journal of Political Economy* 63 (April 1955); and Melville H. Watkins, "A Staple Theory of Economic Growth," *Canadian Journal of Economics and Political Science* 29 (May 1963).

[9] Raul Prebisch, *The Economic Development of Latin America and its Principal Problems* (Lake Success, N.Y.: United Nations, 1950); Hans W. Singer, "The Distribution of Gains between Investing and Borrowing Countries," *American Economic Review* 40, no. 2 (1950). Economist Jacob Viner was appalled by Prebisch's argument, referring to it as "mischievous fantasies, or conjectural or distorted history, or at the best, mere hypotheses relating to specific periods and calling for sober and objective testing." Viner (fn. 8), 61–62.

[10] Ragnar Nurske, "Trade Fluctuations and Buffer Policies of Low-Income Countries," *Kyklos* 11, no. 2 (1958); Jonathan V. Levin, *The Export Economies: Their Pattern of Development in Historical Perspective* (Cambridge: Harvard University Press, 1960).

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cally.[11] Resource exporters would be left with booming resource enclaves that produced few "forward" and "backward" linkages to other parts of the economy.[12]

Since the 1950s, economists have made a sustained effort to test these arguments, particularly the claims that developing states faced a decline in their terms of trade and are harmed by export instability. Recent studies have settled some of these claims but also raised new puzzles.

In the 1960s and 1970s, research on the terms of trade produced conflicting results. For some observers, the 1972 Club of Rome report, *The Limits to Growth,* and the OPEC oil shocks implied that the terms of trade for primary commodities would improve in the long run.[13] Encouraged, the leading exporters of bauxite, copper, hardwood timber, and phosphate explored new bids to restrict global supplies. For a time, resource-rich developing states seemed to hold a privileged slot in the international division of labor.

Since the early 1980s, however, the terms of trade for most primary commodities have tumbled. Most of this drop has been caused by the rising volume of commodity exports, a symptom of the debt crisis and structural adjustment programs of the 1980s; the collapse of international commodity agreements; and after 1989, the fall of the centrally planned economies of Eastern Europe and the former Soviet Union.[14]

[11] Albert O. Hirschman, *The Strategy of Economic Development* (New Haven: Yale University Press, 1958); Robert E. Baldwin, *Economic Development and Export Growth: A Study of Northern Rhodesia, 1920–1960* (Berkeley: University of California Press, 1966); and Levin (fn. 10).

[12] While liberal and radical structuralists largely agreed on the problems of resource exports, they split over how to rectify them. Moderate structuralists favored a strong role for the state to buffer developing economies against international price shocks; to capture the economic rents that were repatriated by multinationals and to invest them in other sectors of the economy; and, for some, to use tariffs and quotas to promote import-substitution industrialization. Some also favored international commodity agreements to stabilize or improve the terms of trade for resource exporters; see Prebisch (fn. 9) and Hirschman (fn. 11).

The radical structuralists, who became identified with dependency theory in the 1960s and 1970s, were far less sanguine; they argued that capitalist governments in developing states would be unable to take the measures proposed by moderates as long as these governments were dominated by local elites who shared the class interests of the foreign multinationals. See Paul A. Baran, "On the Political Economy of Backwardness," *Manchester School of Economics and Social Studies* 20 (January 1952); Andre Gunder Frank, "The Development of Underdevelopment," *Monthly Review* 18 (September 1966); and Fernando Henrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Berkeley: University of California Press, 1979).

[13] According to economist John P. Lewis, the Club of Rome report "froze the attention of the public-affairs community of the world as nothing had before. It knocked the underlying assumption . . . of the classic development program into a cocked hat." Lewis, "Oil, Other Scarcities, and the Poor Countries," *World Politics* 27 (October 1974), 69. See also Donella H. Meadows, Dennis L. Meadows, Jorgen Randers, and William W. Behrens III, *The Limits to Growth* (New York: Universe Books, 1972).

[14] According to Eduardo Borensztein and Carmen M. Reinhart, from 1980 to mid-1993 real non-oil commodity prices dropped by 42 percent, reaching their lowest level in over ninety years. Borensztein and Reinhart, "The Macroeconomic Determinants of Commodity Prices," *IMF Staff Papers* 41

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The 1997–98 Asian financial crisis reduced the demand for commodities and sent prices lower still.

Until the late 1980s, research on secular trends in the terms of trade remained at an impasse, due in part to poor data quality.[15] Since 1988, the improvement of data sets and the use of more sophisticated methods for identifying long-term trends has led to new research.[16] Recent studies now agree that the aggregate terms of trade for primary commodities have declined since at least the beginning of the twentieth century; estimates of the rate of decline range from 0.1 percent to 1.3 percent per annum.[17]

At the same time, studies by Easterly et al., Barro and Sala-i-Martin, and Mendoza have shown that the terms of trade are robust determinants of economic growth.[18] So it may seem that a decline in the terms of trade for primary commodities can account for much of the resource curse. A closer look, however, raises some nagging questions.

Most studies of the terms of trade have used composite indices to measure changes in commodity prices. A recent study by Cuddington instead looks at changes in the terms of trade for twenty-six commodities *separately* between 1900 and 1983. Only five commodities had significant negative trends; five others had positive trends; and sixteen were trendless. Three of the five with declining terms of trade (wheat, maize, and hides) are almost exclusively exported by advanced industrialized states; the supply of a fourth (palm oil) is dominated by

(June 1994). On the collapse of international commodity agreements, see Christopher L. Gilbert, "International Commodity Agreements: An Obituary Notice," *World Development* 24, no. 1 (1996).

[15] John Spraos, "The Statistical Debate on the Net Barter Terms of Trade between Primary Commodities and Manufactures," *Economic Journal* 90 (March 1980); and Stephen R. Lewis Jr., "Primary Exporting Countries," in Hollis Chenery and T. N. Srinivasan, eds., *Handbook of Development Economics* (New York: Elsevier Science Publishers, 1989).

[16] Enzo R. Grilli and Maw Cheng Yang, "Primary Commodity Prices, Manufactured Goods Prices, and the Terms of Trade of Developing Countries: What the Long Run Shows," *World Bank Economic Review* 2 (1988).

[17] This conclusion appears to vindicate the Prebisch-Singer hypothesis—though, ironically, long after dependency theory has fallen out of favor among political scientists. See Andrew Powell, "Commodity and Developing Country Terms of Trade: What Does the Long Run Show?" *Economic Journal* 101 (November 1991); Hans Singer and Jerker Edström, "The Impact of Trends and Volatility in Terms of Trade on GNP Growth," in Machiko Nissanke and Adrian Hewitt, eds., *Economic Crisis in Developing Countries: New Perspectives on Commodities, Trade, and Finance* (New York: Pinter Publishers, 1993); Michael Bleaney and David Greenaway, "Long-Run Trends in the Relative Price of Primary Commodities and in the Terms of Trade of Developing Countries," *Oxford Economic Papers* 45 (July 1993); and David Sapsford and V. N. Balasubramanyam, "The Long-Run Behavior of the Relative Price of Primary Commodities," *World Development* 22, no. 11 (1994).

[18] William Easterly, Michael Kremer, Lant Pritchett, and Lawrence Summers, "Good Policy or Good Luck? Country Growth Performances and Temporary Shocks," *Journal of Monetary Economics* 32 (October 1993); Robert J. Barro and Xavier Sala-i-Martin, *Economic Growth* (New York: McGraw-Hill, 1995); and Enrique G. Mendoza, "Terms-of-Trade Uncertainty and Economic Growth," *Journal of Development Economics* 54 (December 1997).

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Malaysia, one of the developing world's few high-growth commodity exporters.[19] The terms-of-trade effect may be statistically robust at the global level, but it is still elusive at the case-study level.

The second concern of the skeptics—that unstable commodity markets would harm resource exporters—has also been a topic of renewed interest among economists. Scholars agree that the export earnings of the poorest states, with the highest concentrations of commodity exports, are exceptionally unstable; but they disagree over whether this instability is harmful. Since the mid-1960s, studies have consistently found that export instability produces unusually *high* levels of private investment, as exporters try to buffer themselves against future price shocks.[20] The result, according to Knudsen and Parnes's influential *Trade Instability and Economic Development* (1975), was that export instability paradoxically produced higher economic growth.[21]

More recent research, however, suggests that export instability either harms economic growth or has no impact at all.[22] Yet even studies that find it retards growth have so far been unable to link export instability to the resource curse. Lutz, for example, found a negative correlation between export instability and output growth for a large sample of developing and developed countries, but he found no measurable effect for a subgroup of primary commodity exporters.[23] Two independent efforts to link export instability to economic performance in sub-Saharan Africa, the poorest and most commodity-reliant set of states, produced contradictory findings: Gyimah-Brempong found a negative correlation, while Fosu found no significant effect at all.[24] According to

[19] John T. Cuddington, "Long Run Trends in 26 Primary Commodity Prices," *Journal of Development Economics* 39 (October 1992); UNCTAD (fn. 1).

[20] Alasdair I. MacBean, *Export Instability and Economic Development* (London: George Allen and Unwin Ltd., 1966); Odin Knudsen and Andrew Parnes, *Trade Instability and Economic Development* (Lexington, Mass: Lexington Books, 1975); Augustin Kwasi Fosu, "Primary Exports and Economic Growth in Developing Countries," *World Economy* 19 (July 1996); David Dawe, "A New Look at the Effects of Export Instability on Investment and Growth," *World Development* 24, no. 12 (1996); and Atish R. Ghosh and Jonathan D. Ostry, "Export Instability and the External Balance in Developing Countries," *IMF Staff Papers* 41 (June 1994).

[21] Knudsen and Parnes (fn. 20).

[22] The conclusions of these studies are sensitive to the way they measure export instability. See Jere R. Behrman, "Commodity Price Instability and Economic Goal Attainment in Developing Countries," *World Development* 15, no. 5 (1987); Gerald Tan, "Export Instability, Export Growth and GDP Growth," *Journal of Development Economics* 12 (February/April 1983); Cristián Moran, "Export Fluctuations and Economic Growth," *Journal of Development Economics* 12 (February/April 1983); Singer and Edström (fn. 17); and Dawe (fn. 20). A model developed by Mendoza (fn. 18) predicts that terms-of-trade instability will reduce social welfare, regardless of its effect on growth.

[23] Matthias Lutz, "The Effects of Volatility in the Terms of Trade on Output Growth: New Evidence," *World Development* 22, no. 11 (1994).

[24] Kwabena Gyimah-Brempong, "Export Instability and Economic Growth in Sub-Saharan Africa," *Economic Development and Cultural Change* 39, no. 4 (1991); and Augustin Kwasi Fosu, "Effect of Export Instability on Economic Growth in Africa," *Journal of Developing Areas* 26 (April 1992).

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Sachs and Warner, commodity exporters suffer from anomalously slow growth even after controlling for the impact of export volatility.

The third argument against commodity exports—that they generate little growth in other sectors of the economy—faded from view in the 1970s, as the governments of developing states took increasingly strong measures to capture the economic rents that were once repatriated by foreign multinationals. In the 1950s, virtually every major hard-rock mineral and petroleum firm in the developing world was foreign-owned; by 1976 virtually all had been nationalized.[25] According to some versions of dependency theory, nationalization would finally settle the problem of linkages.[26]

Since the 1970s, research on linkages has decreased sharply, yet the problem of linkages has persisted. Fosu's study of seventy-six developing states found that growth in commodity exports between 1967 and 1986 had a negligible effect on the performance of the nonexport sector.[27] The persistence of the linkage problem may, in part, be due to efficiency constraints on export diversification.[28] But it also hints at an undiagnosed policy failure: governments appear to have the capacity to foster linkages, yet have commonly failed to do so.

Though the terms of trade and linkage arguments imply that developing states receive too little revenue from their resource exports, a fourth and more recent explanation for the resource curse dwells on the opposite problem: that a boom in resource exports can produce economic stagnation through an effect known as the Dutch Disease. In the early 1980s, the Dutch Disease looked like a promising explanation for the ailments of resource exporters. More recent research suggests, however, that it is less common in developing states than originally thought, and that governments can usually offset its impact, should they feel it necessary.

Journalists sometimes use the term "Dutch Disease" to refer to all

[25] Stephen J. Kobrin, "Foreign Enterprise and Forced Divestment in LDCs," *International Organization* 34 (Winter 1980); David A. Jodice, "Sources of Change in Third World Regimes for Foreign Direct Investment, 1968–1976," *International Organization* 34 (Spring 1980). Several Latin American states, including Argentina, Bolivia, Chile, and Mexico, nationalized hard-rock mineral and petroleum production as early as the 1920s.

[26] See fn. 12.

[27] Fosu (fn. 20).

[28] On the efficiency constraints on export diversification, see Dean A. DeRosa, "Increasing Export Diversification in Commodity Exporting Countries," *IMF Staff Papers* 39 (September 1992); Trudy Owens and Adrian Wood, "Export-Oriented Industrialization through Primary Processing?" *World Development* 25, no. 9 (1997). Also see the excellent collection of case studies in Richard M. Auty, *Resource-Based Industrialization: Sowing the Oil in Eight Developing Countries* (New York: Clarendon Press 1990).

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economic hardships associated with resource exports.[29] More formally, however, it describes the combined influence of two effects that commonly follow resource booms. The first is the appreciation of a state's real exchange rate caused by the sharp rise in exports; the second is the tendency of a booming resource sector to draw capital and labor away from a country's manufacturing and agricultural sectors, raising their production costs. Together these effects can lead to a decline in the export of agricultural and manufactured goods and can inflate the cost of goods and services that cannot be imported (the nontradable sector).[30]

Empirical studies now suggest that the Dutch Disease may be less common in developing states and more easily counteracted by governments than initially thought.[31] Gelb's study of seven oil exporters during the 1971–83 boom found that only four showed a shift of labor and capital away from their agriculture and manufacturing sectors and toward their resource sectors. Other studies have found that the manufacturing sectors of most mineral economies are unharmed by export booms, though their agricultural sectors often suffer.[32]

A careful look at the Dutch Disease model helps explain why it fits many developing states poorly. The model assumes that an economy's capital and labor supplies are fixed and fully employed before a boom begins. Under these conditions, a booming resource sector should draw capital and labor away from agriculture and manufacturing, thus raising their production costs. Yet developing states often have labor surpluses, and their resource booms draw in foreign capital and labor, offsetting any local scarcities.[33] The Dutch Disease model also assumes that domestic and foreign goods are perfect substitutes; if this assumption is eased—reflecting the fact that manufacturers in developing states often import intermediate goods, which become cheaper when

[29] The name was reputedly coined by the *Economist* in 1977. But the problem itself is much older. Davis (fn. 6) notes that in 1859 economist John Elliot Cairns described the same effect in Australia following the gold rush of the 1850s.

[30] W. M. Corden and P. J. Neary, "Booming Sector and De-industrialization in a Small Open Economy," *Economic Journal* 92 (December 1982); J. Peter Neary and Sweder van Wijnbergen, eds., *Natural Resources and the Macroeconomy* (Cambridge: MIT Press, 1986).

[31] Some even argue that the Dutch Disease should not be considered a malady at all, since the shift of labor and capital toward booming resource sectors simply connotes a change in a state's comparative advantage. See, for example, Davis (fn. 6).

[32] Gelb and associates (fn. 5); Nancy C. Benjamin, Shantayanan Devarajan, and Robert J. Weiner, "The 'Dutch Disease' in a Developing Country: Oil Reserves in Cameroon," *Journal of Development Economics* 30 (1989); Mohsen Fardmanesh, "Dutch Disease Economics and the Oil Syndrome: An Empirical Study," *World Development* 19, no. 6 (1991).

[33] Levin (fn. 10); Tan Tat Wai, "Management of Resource-Based Growth in Different Factor Endowment Conditions," in Miguel Urrutia and Setsuko Yukawa, eds., *Economic Development Policies in Resource-Rich Countries* (Tokyo: United Nations University, 1988).

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the exchange rate appreciates—then the Dutch Disease may not damage the manufacturing sector's competitiveness.[34]

Each of these four economic effects can create hardships for resource exporters. Yet to explain why these hardships lead to persistently slow growth—the resource curse—we must also explain why governments fail to take corrective action. Governments play an exceptionally large role in the resource sectors of almost all developing countries and, at least in theory, have the policy tools to mitigate each of these hardships: they can offset a steady decline in the terms of trade by investing in the productivity of their resource sectors and by diversifying their exports; they can buffer their economies against the vicissitudes of international commodity markets by using commodity stabilization funds and careful fiscal policies; they can use their commodity windfalls to promote upstream and downstream linkages; and they can counteract the Dutch Disease by maintaining tight fiscal policies, temporarily subsidizing their agricultural and manufacturing sectors, and placing their windfalls in foreign currency to keep their exchange rates from appreciating.

In fact, when economists actually carry out case studies, they commonly discover the importance of government policy as an intervening variable. As Neary and van Wijnbergen suggest,

> In so far as one general conclusion can be drawn [from our collection of empirical studies] it is that a country's economic performance following a resource boom depends to a considerable extent on the policies followed by its government. . . . [E]ven small economies have considerable influence over their own economic performance.[35]

The failure of states to take measures that could change resource abundance from a liability to an asset has become the most puzzling part of the resource curse.

[34] Indeed, the model developed by Benjamin et al. (fn. 32) suggests that a resource boom may even lead to the expansion of a developing economy's manufacturing sector. Still, guarding against short-term deindustrialization may be important if a temporary drop in manufacturing output results in a long-term loss of comparative advantage, which may occur if there are industry-specific learning-by-doing effects that are external to the firm. See Kenneth J. Arrow, "The Economic Implications of Learning by Doing," *Review of Economic Studies* 29, no. 3 (1962); Sweder van Wijnbergen, "The 'Dutch Disease': A Disease after All?" *Economic Journal* 94 (March 1984); Paul Krugman, "The Narrow Moving Band, the Dutch Disease, and the Competitive Consequences of Mrs. Thatcher," *Journal of Development Economics* 27 (October 1987); and Norio Usui, "Policy Adjustments to the Oil Boom and Their Evaluation: The Dutch Disease in Indonesia," *World Development* 24, no. 5 (1996).

[35] Neary and van Wijnbergen (fn. 30), 10–11. Other case studies by economists come to similar conclusions; see, for example, Gelb and associates (fn. 5); Wheeler (fn. 4); David Bevan, Paul Collier, and Jan Willem Gunning, "Trade Shocks in Developing Countries," *European Economic Review* 37 (April 1993); Neil B. Ridler, "The Caisse de Stabilisation in the Coffee Sector of the Ivory Coast," *World Development* 16, no. 12 (1988); Urrutia and Yukawa, (fn. 33); and Maurice Schiff and Alberto Valdés, *The Plundering of Agriculture in Developing Countries* (Washington, D.C.: World Bank, 1992).

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Political Explanations for the Resource Curse

Over the last several years, a new round of books and articles has explored the role of politics in the problems of resource exporters. Most of these studies reflect the recent effort to build a positive political economy of development that explains why the economic performances of developing states vary so widely.[36]

This larger effort entails a search for generalizable theories of policy failure—the proclivity of states to adopt and maintain transparently suboptimal economic policies. Theories of policy failure can be sorted into three groups: cognitive theories, which blame policy failures on the shortsightedness of state actors;[37] societal theories, which cite the pernicious influence of privileged classes, sectors, client networks, or interest groups;[38] and statist theories, which fault a state's institutional strength or weakness—its ability to extract and deploy resources, enforce property rights, and resist the demands of interest groups and rent seekers.[39]

Political explanations for the resource curse can be divided along similar lines. Cognitive, societal, and statist approaches to the resource curse each take resource windfalls (or rents) as their independent variable and economic stagnation as their dependent variable. Cognitive theories suggest that windfalls produce myopic disorders among policymakers; societal theories argue that windfalls empower social groups that favor growth-impeding fiscal or trade policies; and statist approaches suggest that windfalls can weaken state institutions that are necessary to foster long-term economic development.

Unlike economic explanations, political explanations for the resource curse are rarely tested, either quantitatively or with well-selected qualitative case studies. The absence of careful testing has had two major consequences: scholars have been unable to produce a cumulative body

[36] See, for example, Robert H. Bates, "Macropolitical Economy in the Field of Development," in James E. Alt and Kenneth A. Shepsle, eds., *Perspectives on Positive Political Economy* (Cambridge: Cambridge University Press, 1990); Robert H. Bates, ed., *Toward a Political Economy of Development: A Rational Choice Perspective* (Berkeley: University of California Press, 1988); Merilee S. Grindle, "The New Political Economy: Positive Economics and Negative Politics," in Gerald Meier, ed., *Politics and Policymaking in Developing Countries*, (San Francisco: ICS Press, 1991); and Thráinn Eggertsson, "The Old Theory of Economic Policy and the New Institutionalism," *World Development* 25, no. 8 (1997).

[37] For a discussion of cognitive approaches to policy failure, see Dani Rodrik, "Understanding Economic Policy Reform," *Journal of Economic Literature* 34 (March 1996).

[38] See, for example, Robert H. Bates, *Markets and States in Tropical Africa* (Berkeley: University of California Press, 1981); Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven: Yale University Press, 1982); Jeffry A. Frieden, *Debt, Development, and Democracy* (Princeton: Princeton University Press, 1991).

[39] Anne O. Krueger, "Government Failures in Development," *Journal of Economic Perspectives* 4 (Summer 1990); and Peter Evans, *Embedded Autonomy* (Princeton: Princeton University Press, 1995).

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of knowledge about the policy failures of resource exporters; and with no apparent need to place their theories in testable form, their arguments are often left underspecified—with nebulous variables, ambiguous domains of relevent cases, and fuzzy causal mechanisms.

Cognitive Explanations

Cognitive approaches suggest that resource wealth causes a type of myopia among public or private actors. This notion has a distinguished history, appearing in the major works of Machiavelli, Montesquieu, Adam Smith, and John Stuart Mill. It was perhaps rendered most vividly in *Six Books of a Commonwealth* by Bodin, who explains that

> men of a fat and fertile soil, are most commonly effeminate and cowards; whereas contrariwise a barren country makes men temperate by necessity, and by consequence careful, vigilant, and industrious.[40]

In the 1950s and the 1960s, development scholars often suggested that resource rents can induce either myopic sloth, or paradoxically, myopic exuberance in policymakers. On the one hand, Wallich and Levin argued that the development path of sugar-exporting states was distorted by a "sugar mentality" that led to lax economic planning and insufficient diversification. Nurske and Watkins, on the other hand, suggested that resource rents lead to irrational exuberance, producing a "get-rich-quick mentality" among businessmen and a "boom-and-bust" psychology among policymakers, marked by bouts of excessive optimism and frantic retrenchments.[41] As interest in the resource curse has swelled, so has the implication that easy wealth leads to either paralysis or shortsighted euphoria among policymakers.[42]

Despite its widespread use, there are several problems with the cognitive approach. The first and least important is that it transgresses the rationality assumptions that most analysts follow.[43] A second and more serious problem is that it is usually deployed in an ad hoc manner, rather than as part of an explicit and testable theory—for example, a theory that links variations in state revenues to variations in the cognitive skills of policymakers.

[40] Jean Bodin, *Six Books of a Commonwealth*, ed. and trans. M. J. Tooley (New York: Barnes and Noble, 1967), 5, 1: 565.

[41] Henry C. Wallich, *Monetary Problems of an Export Economy* (Cambridge: Harvard University Press, 1960); Levin (fn. 10); Nurske (fn. 10); and Watkins (fn. 8).

[42] See, for example, Pradeep K. Mitra, *Adjustment in Oil-Importing Developing Countries* (New York: Cambridge University Press, 1994); Auty (fn. 5); and Lawrence B. Krause, "Social Capability and Long-Term Economic Growth," in Bon Ho Koo and Dwight H. Perkins, eds., *Social Capability and Long-Term Economic Growth* (New York: St. Martin's Press, 1995).

[43] Note, however, that the concept of wealth-induced sloth would be consistent with models that treat rational actors as revenue satisficers instead of revenue maximizers.

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The third problem is that there is little evidence that policymakers collectively fall into wealth-induced stupors. On the contrary, careful case studies, including those carried out by Shafer and Karl, typically describe state actors who are well-informed about the perils of resource booms but whose behavior is highly constrained by political pressures and institutions.[44] Policymakers who are unprepared to manage their newfound wealth are invariably blanketed with advice from the World Bank and other international organizations.[45] Moreover, if resource wealth led to widespread cognitive failure, we might expect to see a similar affliction in the private sector. Yet there is strong evidence that private actors in developing states react to price shocks far more rationally than their governments, even when they have less information.[46]

Cognitive approaches offer an appealingly simple way to explain why governments fail to diversify their export bases and fail to maintain fiscal discipline in the face of export instability and the Dutch Disease. But until social scientists explicitly formulate and test these claims, it will be difficult to take them seriously.

Societal Explanations

Societal approaches suggest that resource booms enhance the political leverage of nonstate actors who favor growth-impeding policies.[47]

[44] See, for example, the quotes at the beginning of this article.

[45] For recent examples, see Stephen W. Salant, "The Economics of Natural Resource Extraction: A Primer for Development Economists," *World Bank Research Observer* 10 (February 1995); Panos Varangis, Takamasa Akiyama, and Donald Mitchell, *Managing Commodity Booms—and Busts* (Washington D.C.: World Bank, 1995).

A classic example can be found in Machiavelli's *Discourses,* which prescribes measures to counteract the hazards of wealth-induced sloth: "as for that idleness which (an exceptionally fertile) site invites, one should organize the laws in such a way that they force upon the city those necessities which the location does not impose." Machiavelli, "Discourses on the First Ten Books of Titus Livius," in Peter Bondanella and Mark Musa, eds. and trans., *The Portable Machiavelli* (New York: Penguin, 1979), 173–74.

[46] This is why export volatility is correlated with higher-than-normal savings rates, at least in the private sector; see fn. 20. On the proclivity of private actors in low-income countries to take precautionary measures against income fluctuations, see Robert M. Townsend, "Consumption Insurance: An Evaluation of Risk-Bearing Systems in Low-Income Countries," *Journal of Economic Perspectives* 9 (Summer 1995); and Jonathan Morduch, "Income Smoothing and Consumption Insurance," *Journal of Economic Perspectives* 9 (Summer 1995).

[47] Versions of this argument have been offered by Miguel Urrutia, "The Politics of Economic Development Policies in Resource-Rich States," in Urrutia and Yukawa (fn. 33); Gustav Ranis, "Toward a Model of Development," in Lawrence B. Krause and Kim Kihwan, eds., *Liberalization in the Process of Economic Development* (Berkeley: University of California Press, 1991); Gustav Ranis and Syed Akhtar Mahmood, *The Political Economy of Development Policy Change* (Cambridge, Mass.: Blackwell, 1992); Robert Wade, "East Asia's Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence," *World Politics* 44 (January 1992); James E. Mahon Jr., "Was Latin America Too Rich to Prosper?" *Journal of Development Studies* 28 (January 1992); Richard M. Auty, "Industrial Policy Reform in Six Large Newly Industrializing Countries: The Resource Curse Thesis," *World Development*

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These arguments are used most frequently to explain why the resource-rich states of Latin America fell behind resource-poor East Asia in the 1970s and 1980s. Scholars have often compared the timely decisions of the South Korean and Taiwanese governments to move away from import-substituting industrialization (ISI) and adopt vigorous export-promotion strategies with the self-defeating efforts of the Latin American governments to maintain ISI policies long after they became counterproductive. A diverse set of scholars—including Auty, Mahon, Ranis, and Wade—all trace Latin America's reluctance to discard ISI to its greater resource wealth. Though each author tells a slightly different story, they all suggest that Latin American manufacturers and workers who enjoyed subsidies from the resource sector stopped their governments from dropping ISI policies. South Korea and Taiwan, however, had little resource wealth and hence fewer groups that profited from ISI; as a consequence, they found it easier to move toward export promotion.

Societal explanations may work in these cases, but can they be generalized? There are three reasons to be skeptical. First, most of these authors rely on the same five cases (South Korea, Taiwan, Mexico, Colombia, and Brazil) to illustrate their arguments. It is not obvious why they select these states since the states differ in many respects beyond resource wealth. Nor is it clear that the same logic can explain slow growth in a larger set of cases. Second, most societal explanations suggest that the curse of slow growth comes from trade barriers, which protect the winners of resource booms. But Sachs and Warner found only a weak correlation between resource exports and trade barriers. At most, they conclude, resource-induced protectionism might account for one-third of the resource curse. Finally, societal arguments work best when nonstate actors have first claim on any resource rents. Those cases, however, are exceptional. In almost all developing countries, minerals and timber are owned by the state, which has first claim on the resource rents; developing states also tend to capture windfalls from agricultural commodities through marketing boards and commodity stabilization funds.[48] In theory, resource wealth should strengthen the state's leverage over societal actors by giving the state a nontax revenue cushion that can insulate it from interest-group pressures and finance

22, no. 1 (1994); Robin Broad, "The Political Economy of Natural Resources: Case Studies of the Indonesian and Philippine Forest Sectors," *Journal of Developing Areas* 29 (April 1995). Sachs and Warner offer a heterodox version of this argument, suggesting that when states are affected by the Dutch Disease, *lagging* manufacturing sectors will demand compensation in the form of trade barriers and thus produce economic stagnation.

[48] Schiff and Valdés (fn. 35).

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payoffs to government opponents. Why then should a resource boom produce a decline in the quality of state policies?

State-Centered Explanations

If policymakers are rational and the behavior of societal actors is held constant, it becomes difficult to explain why resource exporters should respond so poorly to their predicament. This may be why most state-centered explanations for the resource curse are actually hybrids, using a mix of cognitive, societal, and institutional arguments to explain how resource rents might damage a state's ability to promote economic growth. Theories of the rentier state are by far the most common version, while recent books by Shafer and Karl offer new state-centered approaches.

Theories of the rentier state contend that when governments gain most of their revenues from external sources, such as resource rents or foreign assistance, they are freed from the need to levy domestic taxes and become less accountable to the societies they govern. Scholars of the Middle East developed the rentier-state approach to explain both the lack of democratic pressures on and the poor development records of the region's oil exporters; others have now applied this aproach to the commodity-exporting states of sub-Saharan Africa.[49]

Theories of the rentier state come in different forms and emphasize different causal links between resource rents and poor economic governance. Mahdavy, who first advanced the rentier-state concept, argues that resource rents make state officials both myopic and risk-averse: upon receiving large windfalls, he suggests, governments grow irrationally optimistic about future revenues and "devote the greater part of their resources to jealously guarding the status quo" instead of promoting development.[50] Shambayati suggests that rentier states face little social pressure to improve their economic policies, since their low taxes and generous welfare programs discourage opposition groups from mobilizing around economic issues.[51] Others take a more institu-

[49] Hussein Mahdavy, "The Patterns and Problems of Economic Development in Rentier States: The Case of Iran," in M. A. Cook, ed., *Studies in Economic History of the Middle East* (London: Oxford University Press, 1970); Hazem Beblawi and Giacomo Luciani, eds., *The Rentier State* (London: Croom Helm, 1987); Eva Bellin, "The Politics of Profit in Tunisia: Utility of the Rentier Paradigm?" *World Development* 22, no. 3 (1994); and Kiren Aziz Chaudhry, "Economic Liberalization and the Lineages of the Rentier State," *Comparative Politics* 27 (October 1994). Applications to sub-Saharan Africa include John Clark, "Petro-Politics in Congo," *Journal of Democracy* 8, no. 3 (1997); and Douglas A. Yates, *The Rentier State in Africa: Oil Rent Dependency and Neocolonialism in the Republic of Gabon* (Trenton, N.J.: Africa World Press, 1996).

[50] Mahdavy (fn. 49), 443.

[51] Hootan Shambayati, "The Rentier State, Interest Groups, and the Paradox of Autonomy: State and Business in Turkey and Iran," *Comparative Politics* 26 (April 1994).

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tional approach. Chaudhry suggests that rentier states develop poor extractive institutions and therefore lack the information they need to formulate sound development strategies. Anderson argues that rentier states adopt policies that are exceptionally risk-averse, favoring "egalitarian current consumption" over development policies that "while furthering social and economic transformation, risk provoking social conflict."[52]

All these arguments have at their core two nonobvious claims: first, that states are revenue satisficers, not revenue maximizers; and, second, that when a state's demand for revenue diminishes, so will the soundness of its economic policies. These theories conversely imply that states that are revenue-poor and tax their populations more heavily will adopt sounder economic policies and have better growth records. While they are not self-evident, these claims, or perhaps more qualified versions of them, can certainly be tested. Like societal theories, rentier theories have been applied only to a handful of states. But while societal theories have been applied to a small set of states that shows variance on both an independent variable (resource wealth) and a dependent variable (policy outcomes), theories of the rentier state have been applied only to states identified ex ante as rentier states, leaving little variation on an independent or dependent variable. A more careful selection of cases and better efforts to control for the Dutch Disease and other economic effects, may produce more insightful tests of the rentier-state hypothesis.

Both Shafer and Karl, in their recent books, develop ambitious new state-centered explanations for the ailments of commodity exporters; both argue that resource abundance tends to weaken state institutions; and both attempt to test their claims with cases that show variation on their independent or dependent variables. Each book falls short of its ambitious goals due to a combination of conceptual ambiguity and methodological weakness. Both, however, provide important clues about the resource curse.

In *Winners and Losers: How Sectors Shape the Developmental Prospects of States,* Shafer treats the resource curse as part of a larger mystery: why the economic performances of developing states vary so widely. According to Shafer, the economic characteristics of a state's leading export sector provide much of the answer. Previous scholars have argued that the characteristics of an economic sector will influence both the

[52] Kiren Aziz Chaudhry, "The Price of Wealth: Business and State in Labor Remittance and Oil Economies," *International Organization* 43 (Winter 1989); and Lisa Anderson, "The State in the Middle East and North Africa," *Comparative Politics* 20 (October 1987).

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policy preferences of the sector's firms and the ability of these firms to overcome collective action problems and press their demands on the state.[53] Shafer's innovation is to take sectoral analysis one step further, arguing that a leading sector's characteristics also influence the institutional capacity and autonomy of the state itself.

Shafer suggests that when an export sector has a small number of large firms, high barriers to entry and exit, and greater asset-specificity—such as many minerals industries—it will have greater difficulty coping with international market fluctuations and will be more prone to seek government help. Since the small number of firms makes collective action easier, these "inflexible" sectors tend to place exceptionally strong demands on the state for protection during adverse market swings.

At the other extreme, when a leading export sector is composed of many small firms, has low barriers to entry and exit, and has less asset-specificity—such as light manufacturing or peasant agriculture—the sector is better able to adjust on its own to international market fluctuations. With a larger number of firms, these "flexible" sectors are more likely to face barriers to collective action and are less prone to demand protection from the state.

Up to this point, Shafer's argument closely follows the earlier work of Frieden and Paige; it then takes a provocative turn, suggesting that a leading sector's flexibility or inflexibility influences the autonomy and capacity of the state that governs it. Shafer argues, on the one hand, that when a state governs an inflexible leading sector, it tends to develop "specialized tax authorities to tap the huge, concentrated revenue streams such sectors produce, and specialized agencies to monitor, regulate, and promote the activities of these few critical firms" (p. 13). But governing an inflexible sector also has perverse effects on the state, "discourag[ing] leaders from developing institutions to address non-leading-sector needs" (p. 37). As a result, these states fail to "establish institutions to tax, monitor, regulate, or promote other sectors" (p. 14) of the economy. Since monitoring and regulating these inflexible sectors is complex, the government tends to develop close ties with inflex-

[53] Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1962); Albert O. Hirschman, "A Generalized Linkage Approach to Development, with Special Reference to Staples," *Economic Development and Cultural Change* 25 (1977); Jeffrey Paige, *Agrarian Revolution: Social Movements and Export Agriculture in the Underdeveloped World* (New York: Free Press, 1975); James R. Kurth, "The Political Consequences of the Product Cycle: Industrial History and Political Outcomes," *International Organization* 33 (Winter 1979); Ronald Rogowski, *Commerce and Coalitions: How Trade Affects Domestic Political Alignments* (Princeton: Princeton University Press, 1989); and Frieden (fn. 38).

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ible firms. These ties force the state to erroneously conflate the narrow short-term interests of the leading sector with the broader long-term interests of the nation (p. 14).

On the other hand, when a state has a flexible leading sector, it is more likely to develop "deeply penetrating tax authorities . . . and flexible, general-purpose agencies to monitor, regulate, and promote the diverse activities of firms throughout the country" (pp. 13–14). These stronger bureaucratic institutions, combined with weaker demands from the private sector, produce a state that places the national interest above the short-term interests of the leading sector and can better advance the nation's position in the international division of labor.

Parts of Shafer's causal logic seem frail. He claims that the flexibility or inflexibility of leading sectors is caused by the characteristics of the products themselves: coffee farming requires little capital and has small economies of scale, thereby producing flexible sectors; tea is more efficiently grown on large plantations, producing inflexible leading sectors. But many products are compatible with widely varying industrial and social structures: coffee may be flexible in Costa Rica, but inflexible elsewhere, due to differences in class structures and landholding patterns.[54] It is also hard to see why the presence of an inflexible leading sector should prevent a state from developing "institutions to address non-leading-sector needs" (p. 37) and, conversely, why states with flexible leading sectors tend to "promote the diverse activities of firms throughout the country" (p. 14). Still, the book's arguments might be seen as fodder for testing.

Shafer's overambitious selection of case studies, however, weakens his argument. To test his argument, Shafer selects four cases that vary by sector, region, income, population, and regime type: Zambia (whose leading export sector is copper); South Korea (light manufacturing); Sri Lanka (plantation tea); and Costa Rica (smallholder coffee). Shafer explains he selected these four cases "because of the centrality of a single sector in their economies and the importance of the core commodity they produce in international trade" (p. 16). Yet these minimal criteria define a large set of possible cases, and Shafer offers no rationale for selecting these four.

By choosing cases that vary along virtually every possible dimension, Shafer may be trying to maximize his theory's generality—its applica-

[54] See Jeffrey Paige, *Coffee and Power: Revolution and the Rise of Democracy in Central America* (Cambridge: Harvard University Press, 1997); and Robert G. Williams, *States and Social Evolution: Coffee and the Rise of National Governments in Central America* (Chapel Hill: University of North Carolina Press, 1994). Shafer acknowledges this problem in his book's final chapter, though I believe it places more strain on his argument than he acknowledges.

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bility to the broadest possible range of states. But as Sartori pointed out long ago, social scientists must often make tradeoffs between a theory's generality and its validity—its ability to accurately account for puzzling cause-and-effect relationships. To achieve his desired generality, Shafer has been forced to leave his variables loosely defined. The result is a theory with an impressive level of generality but a disappointing level of validity—a classic case of "conceptual overstretch."[55]

Most of the stretching occurs in Shafer's dependent variable, "development outcomes," which he leaves undefined. Zambia and South Korea may be obvious cases of respectively failed and successful outcomes, but what about Sri Lanka and Costa Rica? Shafer treats Sri Lanka (with its inflexible tea sector) as a failure and Costa Rica (with its flexible coffee sector) as a success. Yet according to the World Bank, between 1965 and 1990 Sri Lanka's annual per capita GNP growth rate was more than double Costa Rica's, contradicting Shafer's argument.[56] Without a well-defined dependent variable, Shafer's theory has little validity: it is impossible to know what it does and does not explain.

Still, Shafer's innovative use of sectoral analysis contains a powerful argument about the resource curse. Many minerals industries in developing states are characterized by high asset-specificity, large sunk costs, and high concentration; Shafer shows how difficult these types of industries are to govern, due to both their vulnerability to international market swings and their ability to demand assistance from the state. Shafer's most ambitious claim—that inflexible leading sectors produce weak state institutions, and flexible leading sectors produce strong ones—is not persuasive. A more carefully designed study, however, may find some merit in this argument.

Karl's *The Paradox of Plenty: Oil Booms and Petro-states* also uses a hybrid approach, assembling cognitive, societal, and state factors to explain why the 1973–74 and 1978–79 oil booms led to economic stagnation and political turmoil in many oil-exporting states. Like Shafer, Karl suggests that the characteristics of a country's leading export sector tend to influence the state's capacity to promote economic development.

Karl's theory of states and sectors is eclectic and multifaceted and draws intermittently on the concepts of the rentier state, wealth-

[55] Giovanni Sartori, "Concept Misformation in Comparative Politics," *American Political Science Review* 64, no. 4 (1970); and David Collier and James E. Mahon Jr., "Conceptual 'Stretching' Revisited: Adapting Categories in Comparative Analysis," *American Political Science Review* 87, no. 4 (1993).

[56] World Bank, *World Development Report 1992* (New York: Oxford University Press, 1992).

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induced myopia, rent seeking, collective action, dependency theory, and class analysis. Her central claim is that

> dependence on petroleum revenues produces a distinctive type of institutional setting, the petro-state, which encourages the political distribution of rents. Such a state is characterized by fiscal reliance on petrodollars, which expands state jurisdiction and weakens authority as other extractive capabilities wither. As a result, when faced with competing pressures, state officials become habituated to relying on the progressive substitution of public spending for statecraft, thereby further weakening state capacity. (p. 16)

Karl is strikingly confident about her argument's validity, suggesting that

> the normal stuff of politics—changes in regimes and the particularities of governments, parties, or leaders—pales in explanatory power beside the decision calculus created by this framework. (p. 227)

Does her evidence support this claim? Karl's multipronged theory is not easy to test: she advances so many overlapping arguments and invokes so many undefined concepts that it is hard to tell what her evidence does or does not support. Some parts of her framework plainly contradict her evidence. For example, she draws on institutionalist variants of the rentier-state model to argue that oil revenues tend to weaken states by encouraging them to allow their "extractive capabilities [to] wither" (p. 16). Yet *The Paradox of Plenty* later notes in passing that the oil booms of the 1970s had little effect on the non-oil taxes of the major oil exporters (p. 201). She also suggests that resource wealth can produce cognitive disorders among state officials, who become "habituated" to fiscal policies that weaken state capacity, fall prey to a "rentier psychology," and suffer from bouts of "petromania" (pp. 16, 57, 66–67). Yet her case studies are almost wholly populated by state officials who respond to oil booms with self-interest and cunning.

Other facets of Karl's arguments, however, are convincingly backed by her case studies. She suggests that when states receive large windfalls, they try to do too much too soon, leaving the government administratively overextended; they are also targeted by rent seekers. At the moment when the windfall makes careful long-range planning essential, these two effects weaken the state, a claim well-illustrated by her fascinating study of Venezuelan oil politics, which takes up almost half of *The Paradox of Plenty*.

Yet many parts of the Venezuelan case remain enigmatic. Why did Carlos Andrés Perez, Venezuela's president during the first oil boom, reverse his conservative windfall policies and engineer an ill-advised

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boom in fiscal spending, despite a surprising absence of pressure from below (p. 118)? Why did fiscal spending rise even faster than revenues? And which aspects of the Venezuelan case are common to the larger set of oil exporters?

Karl's four brief studies of Algeria, Iran, Indonesia, and Nigeria give her a chance to answer this final question. Karl has chosen a "most different" strategy for her cases, selecting states that differ along many dimensions but share a common explanatory variable, large oil windfalls, which presumably led to similar outcomes. But here *The Paradox of Plenty* runs into trouble. Like Shafer, Karl leaves her dependent variables, along with her intervening variables, ambiguous. Karl variously describes her intervening variables as the "structuration of choice" (p. 189), "properties of stateness" (p. 190), and "degrees of petro-stateness" (p. 196); she suggests that these explain why petro-states suffer from "disappointing political and economic outcomes" (p. 44), "economic decline and regime destabilization" (p. 17), and "arbitrary, irrational, and volatile" economic policy-making (p. 190).

Since she does not define these terms, we cannot tell whether these five states suffered from a "strikingly similar structuration of choice" (p. 189) and similarly "disappointing" outcomes. Previous studies of these and other petroleum exporters suggest that their responses to the oil boom varied widely.[57] Of her five cases, Venezuela endured the largest "boom effect," yet it outperformed the rest of Latin America in GNP growth, employment growth, infant mortality, life expectancy, and education (pp. 195, 234–35). Why was this outcome "disappointing?"

The vagueness of Karl's framework also detracts from her other major claim: that oil booms produce political instability. Karl finds it significant that between 1974 and 1992, four of the five states experienced some degree of political instability (pp. 193–95). But it is not evident that these five have been less stable than any comparable group of developing states over the same nineteen-year span, or that the seven petro-states she excluded from her sample were affected by the same level of instability, raising the problem of selection bias. Despite its large "boom effect," Venezuela remained one of Latin America's most politically stable countries; in fact, Venezuela's impressive democratic legacy is commonly attributed to the abundance of its oil revenues, which funded payoffs to rival constituencies. Once again, it is not obvious what disappointing outcome Karl is trying to explain.

[57] See Gelb and associates (fn. 5); Auty (fn. 28).

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The Paradox of Plenty is filled with promising clues about the politics of the resource curse, most importantly about how the 1973–74 and 1978–79 oil booms paradoxically weakened the institutions of the Venezuelan state. But Karl's abundance of hypotheses and the richness of the Venezuela case study also make the book frustrating. Like its subjects, *The Paradox of Plenty* is filled with squandered opportunities for advancement.

Other Directions: Parastatals and Property Rights

There is no shortage of other explanations for the resource curse that deserve greater scrutiny. Ascher's intriguing *Why Governments Waste Resources* argues that natural resources suffer from exceptionally poor governance, since state officials can easily manipulate their use to meet unpopular, controversial, or illegal objectives.[58] Hartwick, Panayotou, and Vincent imply that resource exporters often suffer because the investments they must make to offset the effects of impending resource depletion are counterintuitively large.[59] Wood and Berge suggest that manufacturing sectors have greater growth potential than primary production sectors due to faster technical progress and more scope for learning-by-doing.[60] The growing theoretical literature on rent seeking may help explain why state officials adopt economically perverse policies in the wake of resource booms.[61]

Two other explanations, which have so far received little attention, are also promising. One is that much of the resource curse has been caused by the state's ownership of resource industries. From the 1950s to the mid-1970s, many foreign-owned resource firms were national-

[58] William Ascher, *Why Governments Waste Resources: The Political Economy of Natural Resource Policy Failures in Developing Countries* (Baltimore: Johns Hopkins University Press, forthcoming).

[59] John M. Hartwick, "Intergenerational Equity and the Investing of Rents from Exhaustible Resources," *American Economic Review* 67 (December 1977); and Jeffrey R. Vincent, Theodore Panayotou, and John M. Hartwick, "Resource Depletion and Sustainability in Small Open Economies," *Journal of Environmental Economics and Management* 33 (July 1997).

[60] Adrian Wood and Kersti Berge, "Exporting Manufactures: Human Resources, Natural Resources, and Trade Policy," *Journal of Development Economics* 34 (October 1997).

[61] Anne O. Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64, no. 3 (1974); James Buchanan, Robert Tollison, and Gordon Tullock, *Toward a Theory of the Rent-Seeking Society* (College Station: Texas A&M University Press, 1980); David C. Colander, ed., *Neoclassical Political Economy: The Analysis of Rent-Seeking and DUP Activities* (Cambridge, Mass.: Ballinger Publishing Company, 1984); Fred McChesney, "Rent Extraction and Rent Creation in the Economic Theory of Regulation," *Journal of Legal Studies* 16 (January 1987); Elie Appelbaum and Eliakim Katz, "Seeking Rents by Setting Rents: The Political Economy of Rent Seeking," *Economic Journal* 97 (September 1987); and W. R. Dougan and J. M. Snyder, "Are Rents Fully Dissipated?" *Public Choice* 58, no. 3 (1993).

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ized, a move that had at least three harmful consequences for many developing states. Foreign multinationals had previously served as buffers against export instability; without them the governments and economies of developing states have become more exposed to international market shocks.[62] State ownership may have also "softened" the budget constraints of resource-exporting governments, producing fiscal laxity and a tendency to overborrow.[63] And parastatals are exceptionally inefficient and often deprived of funds they need to improve productivity.

It may be no coincidence that in Shafer's two examples of development failure, the leading export sectors (copper in Zambia, tea in Sri Lanka) were owned by the state and egregiously mismanaged, while in the two cases of success the leading sectors (textiles in South Korea, coffee in Costa Rica) were privately held and well-managed.[64] If part of the resource curse is due to state ownership, privatization could offer a simple solution.

A second promising approach might link the resource curse to the failure of states to enforce property rights. This could take two possible forms and would only apply to a subset of relatively poor and unstable resource exporters. First, both economic decline and resource dependence might be independently caused by poorly enforced property rights. When the enforcement of property rights is exceptionally weak, manufacturing firms should find it difficult to operate since the risk of lost investments cannot be offset by normal profit margins. But resource extraction can still proceed, since firms earning resource rents can afford to pay criminal gangs, private militias, or nascent rebel armies for the private enforcement of their property rights while still earning a normal profit. The result is a state that grows slowly, and where resource extraction, by default, forms a large proportion of all commercial activity.[65] In this first scenario, the correlation between slow growth and heavy resource exports is spurious: both are the result of poorly enforced property rights.

If one important assumption is relaxed, however, the outcome grows more worrisome. In the above scenario, criminal gangs and private

[62] Levin (fn 10); D. Michael Shafer, "Capturing the Mineral Multinationals: Advantage or Disadvantage?" *International Organization* 37 (Winter 1983).

[63] Janos Kornai, "The Soft Budget Constraint," *Kyklos* 39 (1986).

[64] The World Bank notes that privately owned tea plantations in both Sri Lanka and India are far more productive and profitable than state-owned tea plantations. See World Bank, *Global Economic Prospects and the Developing Countries* (Washington D.C.: World Bank, 1996), 51.

[65] In fact, when a state poorly enforces property rights to its natural resources, it may *gain* a comparative advantage in international trade; see Graciela Chichilnisky, "North-South Trade and the Global Environment," *American Economic Review* 84, no. 4 (1994).

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militias are treated as exogenous: the decision of resource firms to hire them has no influence on their strength, prevalence, or behavior. But in settings where the rule of law is already weak, the presence of resource firms may help these groups form (or enable preexisting groups to expand) by giving them lucrative opportunities for extortion. Just as the presence of monopoly rents tends to foster rent-seeking behavior, the presence of resource rents may foster the rise of extralegal organizations that seek out "protection rents."[66] If the growing strength of these groups further inhibits the state's ability to enforce property rights impartially, then the rise of nonresource firms would become less likely. The result would be a violent form of the resource curse, in which the rise of resource industries indirectly leads to further destabilization of property rights and hence the decline of nonresource industries.

These dismal scenarios may help explain why resource extraction has often flourished in states or regions where the rest of the economy, and the rule of law, have largely broken down: in large sections of Cambodia, Colombia, Congo-Kinshasa, Congo-Brazzaville, Nigeria, Cameroon, Liberia, Sierra Leone, and Mozambique.[67]

Conclusion

Much of the variance between resource and nonresource exporters can almost certainly be tied to international economic factors, including a decline in the terms of trade for primary commodities and the instability of commodity markets. We still know little, however, about the politics of the resource curse—why resource-exporting governments respond perversely or ineffectively to these and other hardships. Over the past two decades, the gap has widened between our understanding of the economics and our understanding of the politics of resource exporters.

The disparity between strong cumulative findings on economic questions and weak noncumulative findings on political questions is partly due to the failure of political scientists to test their own hy-

[66] On the concept of "protection rents," see Frederic C. Lane, "Economic Consequences of Organized Violence," *Journal of Economic History* 18 (December 1958). Firms with highly specific assets, such as resource firms, are especially vulnerable to extortion; see Benjamin Klein, Robert G. Crawford, and Armen A. Alchian, "Vertical Integration, Appropriable Rents, and the Competitive Contracting Process," *Journal of Law and Economics* 21 (October 1978).

[67] Evidence of a link between resource extraction and extralegal violence can be gleaned from William Reno's intriguing history of the diamond industry in Sierra Leone's Kono District, *Corruption and State Politics in Sierra Leone* (New York: Cambridge University Press, 1995). See also Jonathan C. Brown's fine study of oil firms during the Mexican revolution, *Oil and Revolution in Mexico* (Berkeley: University of California Press, 1992).

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potheses. The dearth of hypothesis testing in political science may reflect the high costs of doing primary research in the developing world; it may also reflect the peculiar incentives of the subfield of comparative development, which tends to reward the production of "new" theories but to disdain the testing of existing ones. Whatever its source, the absence of hypothesis testing has hindered the contributions of political science to the study of the resource curse. More subtly, it has enabled political scientists to produce theories that are unworkably vague. In recent years, the field of comparative politics has shown greater concern for methodological rigor. This review underscores the importance of this new trend.

Twenty-seven of the thirty-six states in the World Bank's most troubled category—severely indebted low-income countries—are primary commodity exporters. For these and scores of other states, insights into the sources of the resource curse could have far-reaching consequences. Further progress will depend, in part, on the ability of political scientists to test their hypotheses with greater methodological care; on their willingness to place their theories in testable form, even when they cannot be tested; and on the proclivity of both economists and political scientists to pay closer attention to each others' contributions.

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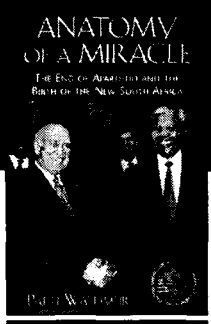

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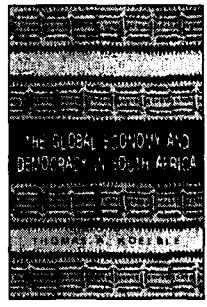

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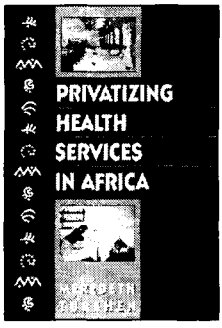

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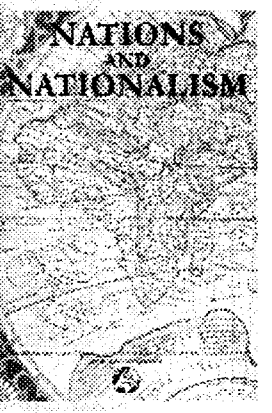

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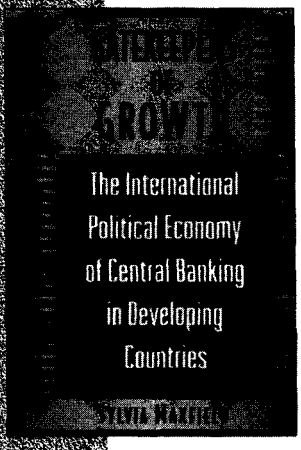

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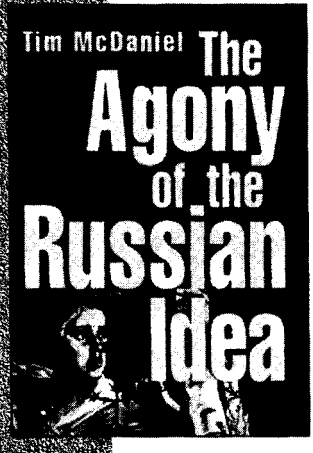

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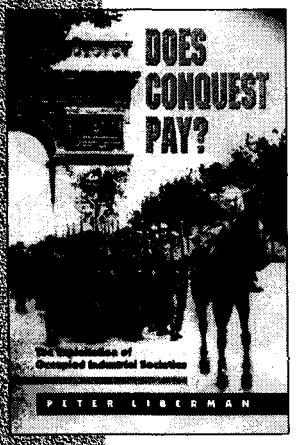

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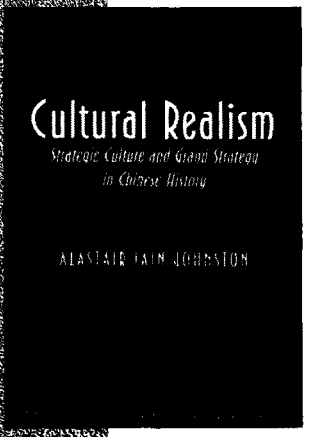

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Paper $18.95 ISBN 0-691-05880-6 Cloth $60.00 ISBN 0-691-05879-2

Princeton University Press

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